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1915, Section 623

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LONG-TERM
PAGE 86

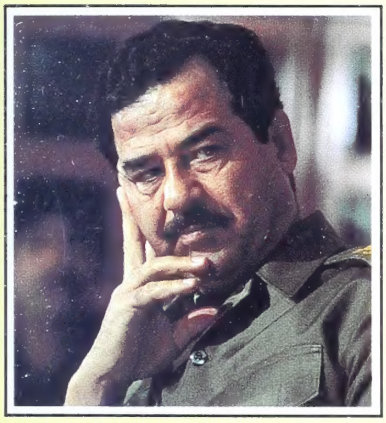
BusinessWeek

SEPTEMBER 3, 1990 A McGRAW-HILL PUBLICATION $2.00

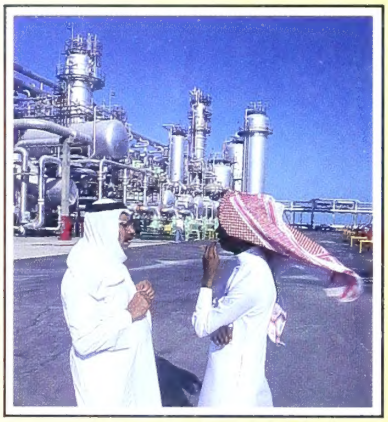
FLASH POINT

PAGE 26

With Iraq holding Westerners hostage, the Mideast crisis escalates



Saddam Hussein



Saudi oil field

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After years of buyin "Porsche of toasters" t perhaps you're read

There is a small group of individuals in the world for whom perfection is almost an obsessio Somewhere in the evolution of this group's vernacular, the name Porsche came to represent f more than sheetmetal. It became a benchmark.

For their part, these purists have used Porsche as an analogy for anything inimitable. For o part, we have continued to craft unique, exciting automobiles which make the analogy viab

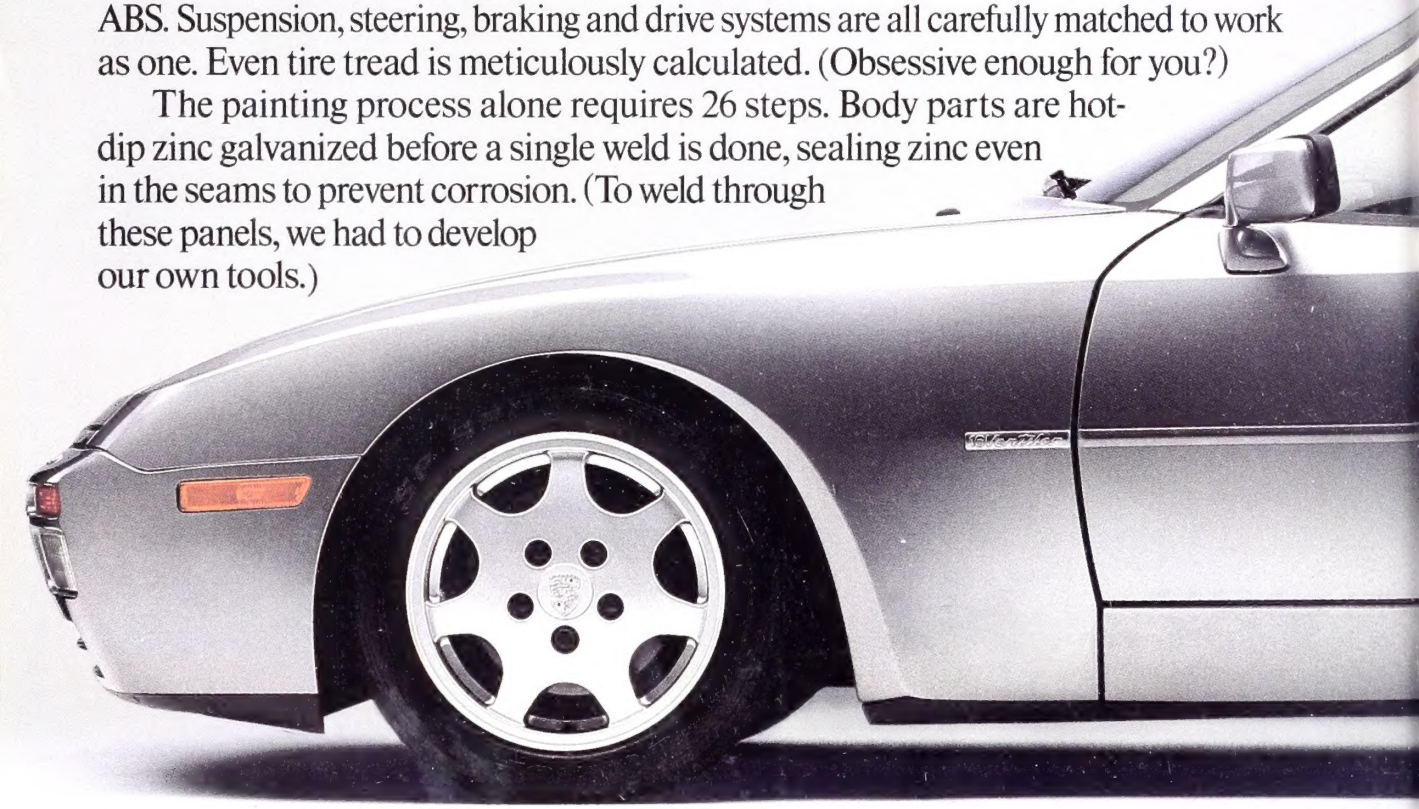
The new 944 S2 Cabriolet is a powerful basis for such comparison.

The 944 convertible continues a tradition of racebred, open-top cars. Professor Porsch first car, an open roadster hand-built in 1948, won the first race it entered. Thus began the sto

The 944 chapter opened in 1981, when the car was created for the famous 24 hour race LeMans. The new Cabriolet possesses the engineering that has since made the 944 victorio on racetracks around the globe.

A transaxle design provides near-perfect 50-50 weight balance. Cornering is uncannily stab Pressure-cast alloy wheels are mated to huge, 4-piston internally vented disc brakes with ABS. Suspension, steering, braking and drive systems are all carefully matched to work as one. Even tire tread is meticulously calculated. (Obsessive enough for you?)

The painting process alone requires 26 steps. Body parts are hot-dip zinc galvanized before a single weld is done, sealing zinc even in the seams to prevent corrosion. (To weld through these panels, we had to develop our own tools.)



© 1990 Porsche Cars North America, Inc. Porsche recommends seat belt usage and observance of all traffic laws at all times.

verything from the
ne "Porsche of stereos,"
or the Porsche of cars.

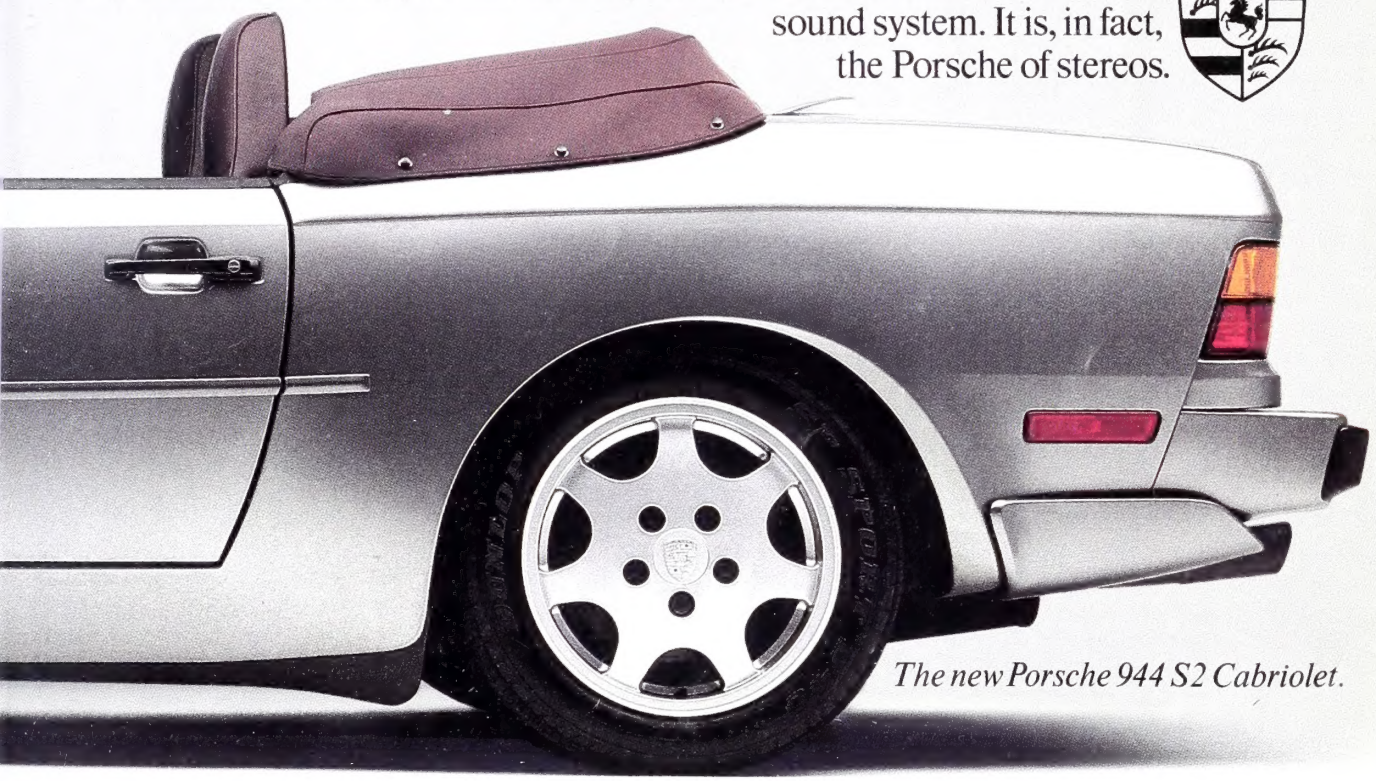
So after nearly a decade of setting standards against which other sports cars are measured, at the only way left to make the 944 more fun was to take the top off. Naturally, in typical sche fashion.

The thick, 4-layer top is hand-stitched, then hand-assembled. For a precise fit on each individual car. The Porsche philosophy is that a convertible must truly be 4-season. A specially forced windshield sweeps air around the vehicle, creating an effect that has been described like being in the eye of a hurricane." An eerie calm, with a tempest swirling about you.

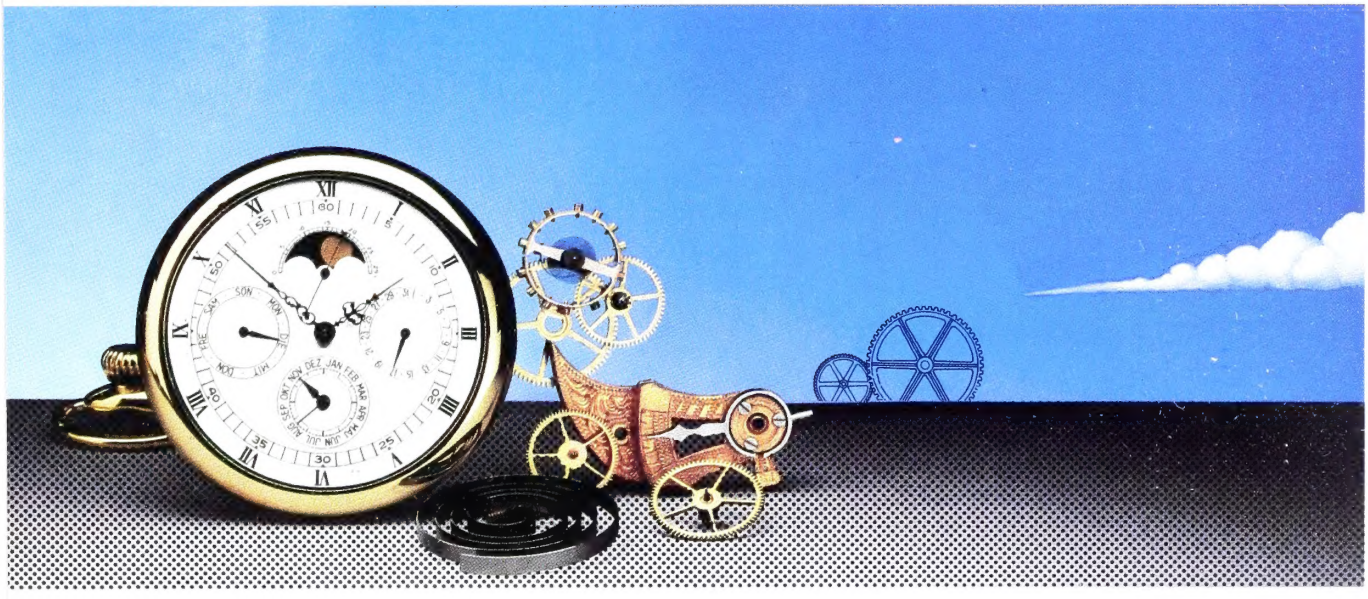
For those who measure value strictly in terms of exclusivity, we offer this thought; just over 0 of these 1990 Cabriolets will be made available in the U.S. Or, to put it another way, fewer n 140 per month for the entire country.

If you have spent a lifetime acquiring a collection of preeminent products, and are now ly for the automobile which inspired many of them, we invite you to visit your authorized Porsche dealership for a test-drive.

As a final side-benefit, you can also experience our new 4x25 watt Reno II sound system. It is, in fact, the Porsche of stereos.



The new Porsche 944 S2 Cabriolet.



Today, it may take merchant banking

to solve the most intricate problems.

Few things are more complex than corporate finance today.

The way you borrow in London may affect the way you manage cash here at home.

Choosing between debt and equity financing can involve dozens of variables—all interlocked.

Complicated puzzles like these often yield most readily to merchant banking. As practiced by Bankers Trust.

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And because of the multi-level, multi-service relationships that have sprung up between us and our corporate clients.

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When problems were less intricate, conventional banking could solve them. Today, it's most often merchant banking that provides the perfect fit.

Bankers Trust Company

Because today isn't yesterday.

NUMBER 3176

BusinessWeek

SEPTEMBER 3,

GIs ON THE SAUDI FRONT: THE 35,000 AMERICAN TROOPS NOW IN THE MIDEAST MAY BE JUST THE FIRST OF A FORCE THAT COULD TOTAL 250,00

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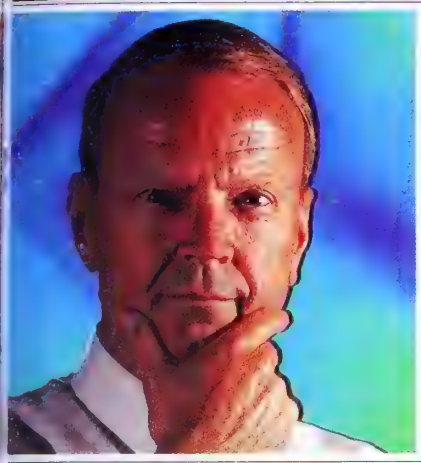

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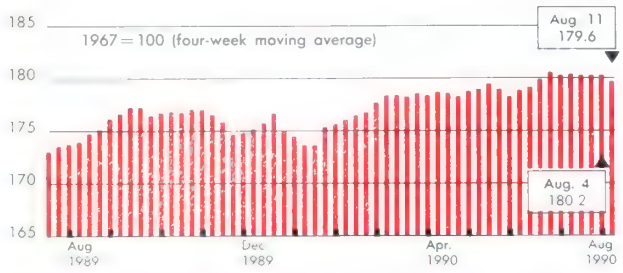
BusinessWeek Index

PRODUCTION

Change from last week: –0.3%
Change from last year: 3.3%

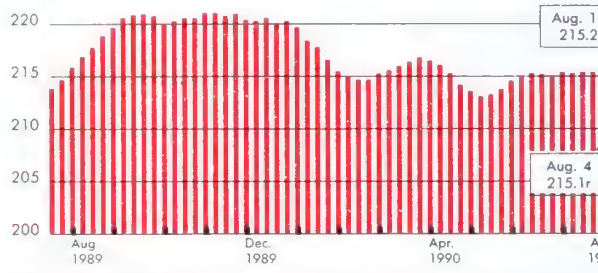


The production index dropped for the week ended Aug. 11. On a seasonally adjusted basis, output of autos was up sharply, and steel, paper, and rail-freight traffic production increased as well. Truck, lumber, and electric power output declined. Production of crude-oil refining, coal, and paperboard were unchanged from the previous week. Before calculation of the four-week moving average, the index rose slightly to 179.2, from 179.1.

BW production index copyright 1990 by McGraw-Hill Inc.

LEADING

Change from last week: 0.0%
Change from last year: –0.7%



The leading index continued to show little movement this summer, rising jus bit during the week ended Aug. 11. Sharply declining stock prices, higher bo yields, a large rise in the number of business failures, and slower growth in r estate loans offset a gain in the pace of materials prices and in the growth rate M2. Before calculation of the four-week moving average, the index fell to 215 from 215.5 in the previous week.

Leading index copyright 1990 by Center for International Business Cycle Research

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
STEEL (8/18) thous. of net tons	1,927	1,901 #	8.3
AUTOS (8/18) units	109,273	119,087r #	–13.0
TRUCKS (8/18) units	55,995	66,027r #	–26.0
ELECTRIC POWER (8/18) millions of kilowatt-hours	62,772	61,022 #	8.2
CRUDE-OIL REFINING (8/18) thous. of bbl./day	14,119	14,388 #	1.9
COAL (8/11) thous. of net tons	20,206 #	19,960	3.1
PAPERBOARD (8/11) thous. of tons	744.3 #	744.8r	0.5
PAPER (8/11) thous. of tons	774.0 #	757.0r	2.8
LUMBER (8/11) millions of ft.	478.3 #	491.7	–0.3
RAIL FREIGHT (8/11) billions of ton-miles	20.5 #	20.4	5.1

Sources: American Iron & Steel Inst., *Ward's Automotive Reports*, Edison Electric Inst., American Petroleum Inst., Energy Dept., American Paper Inst., WWPA[1], SFPA[2], Association of American Railroads.

FOREIGN EXCHANGE

	Latest week	Week ago	Year ago
JAPANESE YEN (8/22)	146	147	144
GERMAN MARK (8/22)	1.55	1.56	1.96
BRITISH POUND (8/22)	1.93	1.90	1.57
FRENCH FRANC (8/22)	5.22	5.24	6.62
CANADIAN DOLLAR (8/22)	1.14	1.14	1.17
SWISS FRANC (8/22)	1.27	1.30	1.69
MEXICAN PESO (8/22)[3]	2,883	2,878	2,536

Sources: Major New York banks. Currencies expressed in units per U. S. dollar, except for British pound expressed in dollars.

PRICES

	Latest week	Week ago	% Change year ago
GOLD (8/22) $/troy oz.	408.750	398.400	11.6
STEEL SCRAP (8/21) # 1 heavy, $/ton	118.00	118.00	8.3
FOODSTUFFS (8/20) index, 1967 = 100	215.4	216.0	–0.5
COPPER (8/18) ¢/lb.	137.8	134.3	7.3
ALUMINUM (8/18) ¢/lb.	81.5	81.0	0.6
WHEAT (8/18) # 2 hard, $/bu.	2.89	2.91	–32.5
COTTON (8/18) strict low middling 1-1/16 in., ¢/lb.	73.89	79.35	7.0

Sources: London Wed. final setting, Chicago mkt., Commodity Research Bureau, *Metals Week*, Kansas City mkt., Memphis mkt.

LEADING INDICATORS

	Latest week	Week ago	% Ch yea
STOCK PRICES (8/17) S&P 500	335.70	336.61	
CORPORATE BOND YIELD, Aaa (8/17)	9.37%	9.34%	
INDUSTRIAL MATERIALS PRICES (8/17)	104.9	104.6	
BUSINESS FAILURES (8/10)	290	267	
REAL ESTATE LOANS (8/8) billions	$378.9	$378.4	
MONEY SUPPLY, M2 (8/6) billions	$3,292.3	$3,286.8r	
INITIAL CLAIMS, UNEMPLOYMENT (8/4) thous.	341	344	

Sources: Standard & Poor's, Moody's, *Journal of Commerce* (index: 1980 = 100), D Bradstreet (failures of large companies), Federal Reserve Board, Labor Dept. CIBCR se ally adjusts data on business failures and real estate loans.

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Ch yea
HOUSING STARTS (July) annual rate, thous.	1,148	1,179r	
CONSUMER PRICE INDEX (July)	130.4	129.9	
REAL GROSS WEEKLY PAY (July)	$165.70	$165.18r	
BUDGET SURPLUS OR DEFICIT (–) (July) millions	–$25,934	–$11,228	

Sources: Commerce Dept., BLS, Treasury Dept.

MONETARY INDICATORS

	Latest week	Week ago	% Ch yea
MONEY SUPPLY, M1 (8/6)	$813.0	$809.2r	
BANKS' BUSINESS LOANS (8/8)	320.0	320.6	
FREE RESERVES (8/8)	270r	320r	
NONFINANCIAL COMMERCIAL PAPER (8/8)	147.1	145.8	

Sources: Federal Reserve Board (in billions, except for free reserves, which are express a two-week period in millions).

MONEY MARKET RATES

	Latest week	Week ago	Y a
FEDERAL FUNDS (8/21)	8.00%	8.14%	9.
PRIME (8/22)	10.00	10.00	10.
COMMERCIAL PAPER 3-MONTH (8/21)	7.94	7.82	8.
CERTIFICATES OF DEPOSIT 3-MONTH (8/22)	8.07	7.89	8.
EURODOLLAR 3-MONTH (8/15)	7.93	7.89	8.

Sources: Federal Reserve Board, First Boston

# Raw data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equip
1 = Western Wood Products Assn. 2 = Southern Forest Products Assn. 3 = Free market value NA = Not available r = revised NM = Not meaningful

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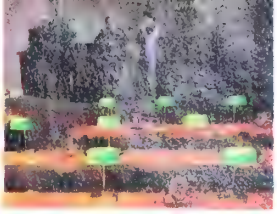

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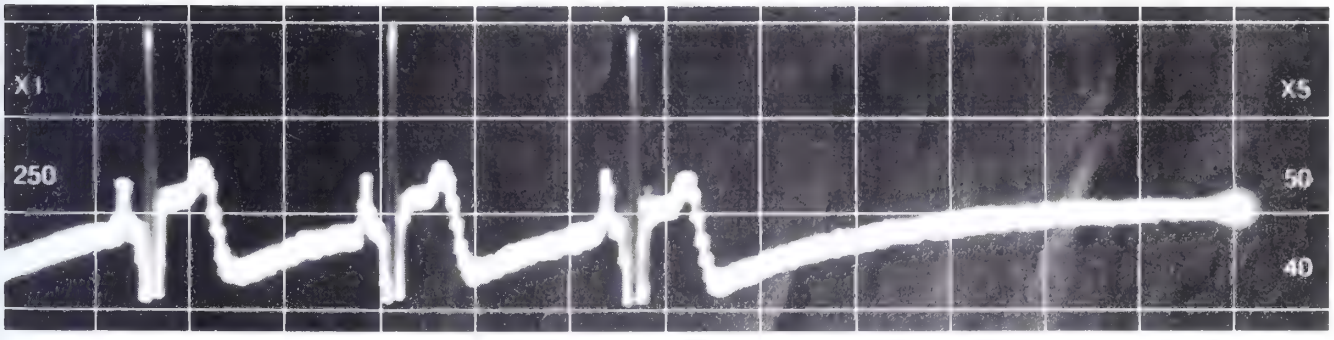
UNFORTUNATELY, THE WAY TO A MAN'S HEART REALLY IS THROUGH HIS STOMACH.



While your cooking was supposed to help you win someone's heart, it may also help you destroy it.

Because a diet that's too high in fat may increase the risk of heart disease as well as certain kinds of cancer.

Fortunately, you can help reduce your risk simply by eating a low-fat diet containing lots of fruits and vegetables, whole grain foods, lean meats, fish, poultry and low-fat dairy products.

For a free booklet on how to reduce the fat in your diet, call 1-800-EAT-LEAN.

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"The unanimous response of all participants was extremely favorable," said Jon Madzelan, Chief of Telecommunications for the Office of Emergency Service in Sacramento. "We all now wonder if we could have done as well without it! I doubt it."

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Readers Report

WOMEN: ONWARD AND UPWARD IN THE CORPORATION

As a working woman, I applaud efforts to utilize the talents of all members of the work force. Articles like yours ("Welcome to the woman-friendly company," Cover Story, Aug. 6) help heighten businesspeople's awareness of the rewards for such activities.

As a former employee, I was pleased to see Reader's Digest on your list of up-and-comers. However, it would be misleading not to recognize the importance of a sex-discrimination class-action suit and multimillion-dollar settlement in making the Digest's managers aware of the opportunities they were missing by overlooking and underpaying their female employees.

The fact is that sometimes you have to hit a donkey with a two-by-four just to get its attention.

Joanne P. Wojtusiak
Cornwall Bridge, Conn.

It is critically important to tell the good news, and I applaud your portrayal of the best companies for women. It is equally crucial to identify the blatant discrimination still practiced by many U. S. corporations.

Business golf outings are routinely held at clubs that allow no women members, at clubs that have no facilities for women, and at one club in particular that allows no women on the premises.

Private clubs are a separate issue, but corporations that use them for business entertainment do so at the expense of women members on their management teams and their women clients.

Lee van de Velde
Philadelphia

Your story on the best companies for women omitted a significant reason women have difficulty rising in the corporate hierarchy. The Honeywell employee survey came close in its recognition that "personal relationships were a key element in upward mobility."

My own observation has been that women's worst enemy is other women. They rarely act as mentors for other women, as is very common with men. Women need to be better at coaching other women in the corporate world.

Dr. Clinton G. Weiman
Citibank
New York

Thank you for your upbeat article on the improving percentage of women in management: "A respectable 12.6% of IBM's upper-management ranks. . . ." That must mean that soon I will be reading about women in other-than-cover articles.

But not yet. For example, the previous issue of BUSINESS WEEK had 30 photos of businessmen and not one of a businesswoman (ads aside and a token woman carrying Louis Vuitton luggage).

Do pictures speak louder than words?

Evelyn Mareth
Fairfield, Conn.

In my view, your article underemphasized the role of a woman manager's prior experience in preparing her for success in top management.

Attempts to create woman-friendly corporate climates (with numerical targets, cash bonuses, awareness training, and such) should be applauded, but they are no substitute for different types of job experiences a woman should gather before arriving in the executive suite.

Nanette Fondas
Assistant Professor of Management
Babson College
Wellesley, Mass.

FREIGHTLINER OUTDID NAVISTAR —BUT NOT BY UNDERPRICING

After reading "Navistar labors up another hill" (The Corporation, July 30), I feel compelled to comment on the assertion that Freightliner has in-

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creased market share 4% by drastically slashing prices. In fact, nothing could be further from the truth.

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The increased share of market accruing to Freightliner has been achieved through expanding our product line by introducing five new major models in the last 24 months, winning customer acceptance through increased emphasis on truck safety, developing a unique used-truck program and comprehensive dealer-training programs, and expanding and strengthening our dealer organization.

If the directors, shareholders, dealers, and customers want to get to the root of Navistar's problem, they should look at its senior management. During the last several years, Navistar has failed to keep pace in new-product development (five years late in introducing an aerodynamic Long Conventional) and has admittedly mismanaged the manufacturing sector. It has inflicted three chaotic senior management reorganizations on the company in four years.

As with most salesmen, companies find it very difficult to admit that they have been outsold; it's easier and less embarrassing to claim they have been underpriced! Enough said.

James Hebe
Senior Vice-President
Sales & Marketing
Freightliner Corp.
Portland, Ore.

AT OLDSMOBILE, 'THE VISION IS CLEAR'

It was premature to offer a critique of Oldsmobile's newly implemented image direction and marketing plan without having given us adequate time to execute it (" 'They're still groping,' " Top of the News, July 9).

Oldsmobile recently (1987-89) experienced a serious sales decline. As a result, we undertook a complete reassessment of our business. With our key partners at General Motors, we spent nearly a year studying our market, customers, product, and history to determine those elements that had made Oldsmobile successful and unique in the marketplace over the years. Coupled with current research of the buying public's product requirements and understanding of Oldsmobile, this work culminated in the "Vision of Oldsmobile."

This vision defined the future market and product direction toward which we are working. The vision is clear to all of us at Oldsmobile, but, like any long-term program, it takes time to develop fully and to achieve meaningful bottom-line results. Also, it must be communicated time and time again to all of our constituencies: customers, employees, dealers, suppliers, and the press.

The second unfortunate element of your story is the source selected as the "marketing pro." That gentleman certainly has solid credentials in the field of package goods but knows very little about Oldsmobile, about what we did to arrive at our new direction, and about what we are trying to do in the market. His comments were simply directed toward our image statement: "Smart, contemporary vehicles that are a step ahead in design, value, and total satisfaction." Unfortunately, one of his ill-advised comments became the headline for your story.

J. Michael Losh
General Manager
Oldsmobile Div.
General Motors Corp.
Lansing, Mich.

MONTGOMERY WARD SHOPPERS SHOP AT SEARS, TOO

I take strong issue with comments attributed to a member of the board of directors of Sears, Roebuck & Co. that appear in your magazine. In spite of what this uninformed outside director at Sears has said, as quoted in the article ("Can Ed Brennan salvage the Sears he designed?" Top of the News, Aug. 27), there is absolutely no truth to the statement that "Ward's shoppers [are] of a lower class of people, who might not shop at Sears."

This statement, in addition to being completely misleading, factually incorrect, and unsubstantiated, shows an indifference and insensitivity to the loyal, discerning customers who shop at Montgomery Ward and Sears, and who frequently shop both Montgomery Ward and Sears to compare quality, value, and service. It is important to note that this same article makes reference to a customer in Hayward, Calif., who shopped both Montgomery Ward and Sears for a washer and dryer, finding a better value at Montgomery Ward. Does the director-spokesperson at Sears believe that this fine customer assumed a different profile when she entered the two different stores?

The facts show that: 85% of Montgomery Ward shoppers also shopped at Sears in the past year, 88% of frequent Montgomery Ward shoppers (once a month or more often) shop at Sears, and 70% of Montgomery Ward credit-card holders also possess a Sears credit ca

These facts and additional data pe taining to demographic comparisons Montgomery Ward and Sears custome such as income and age, substantiate t strong similarities of the two companie customer bases.

It is inconceivable that a Sears dire tor, now acting along with other outsi directors as a spokesman for the comp ny, would make such flagrant alleg tions, which are not only wrong and v late a contractual obligation confidentiality but also do a great disse vice to the customers of both companie

Montgomery Ward agreed with Sea request not to comment overall on t recent discussions. Had we known th Sears would violate the agreemer which they requested, we would ha gladly presented your reporter with t information listed above, which refut the erroneous statements of the Sea director. Of course, under no circu stances will we discuss matters subje to the confidentiality agreement.

Bernard F. Brenn
Chairman and C
Montgomery Ward & C
Chica

WHY KUBOTA IS ARDENT ABOUT STARDENT

I would like to correct any impressi contained in your article "Why K bota hitched its tractor to Cummin (Top of the News, July 30) that Kubo is unhappy with its investment in Sta dent Computer. We have been a strat gic partner with Stardent and one of i predecessor companies, Ardent Compu er, since 1986, and our commitment the company continues to grow.

We recently established Kubota Paci ic Computer to increase our engineerir and manufacturing support to Starde Contrary to the statement in your ar cle, Kubota took this action in respon to Stardent's request.

We are currently negotiating a agreement to provide more than $50 m lion in additional financing to Starde over the next two years. We would we come participation in such financir from Stardent's other investors, b since it is not forthcoming, Kubota doing its part to assist.

Masahiro Yoshi
Managing Direct
Kubota Cor
Osaka, Japa

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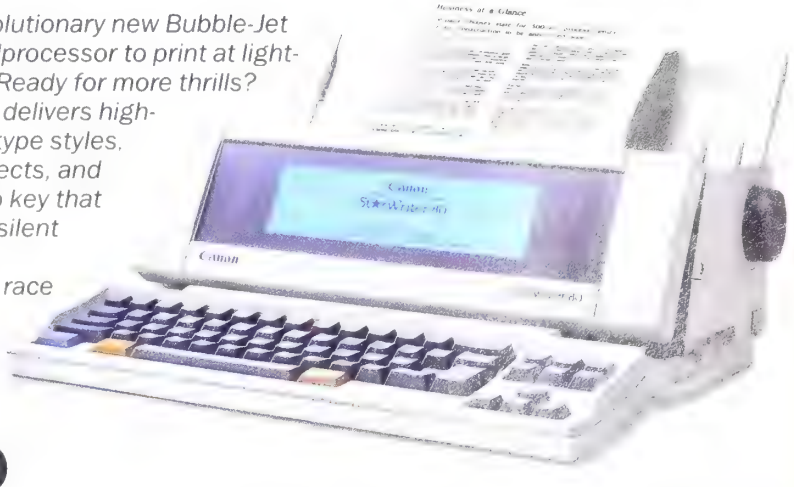

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TRUMP: SURVIVING AT THE TOP
By Donald J. Trump with Charles Leerhsen
Random House • 236pp • $21.95

TRUMP II: THIS TIME IT'S PERSONAL

On the cover of *Trump: Surviving at the Top* is a photograph of The Donald himself, left hand semidefiantly on hip, right hand tossing a shiny Red Delicious apple. He wears a slightly pained look. In the background is the sky, indicating that he is either poised on the roof of Trump Tower or has shuffled off this mortal coil.

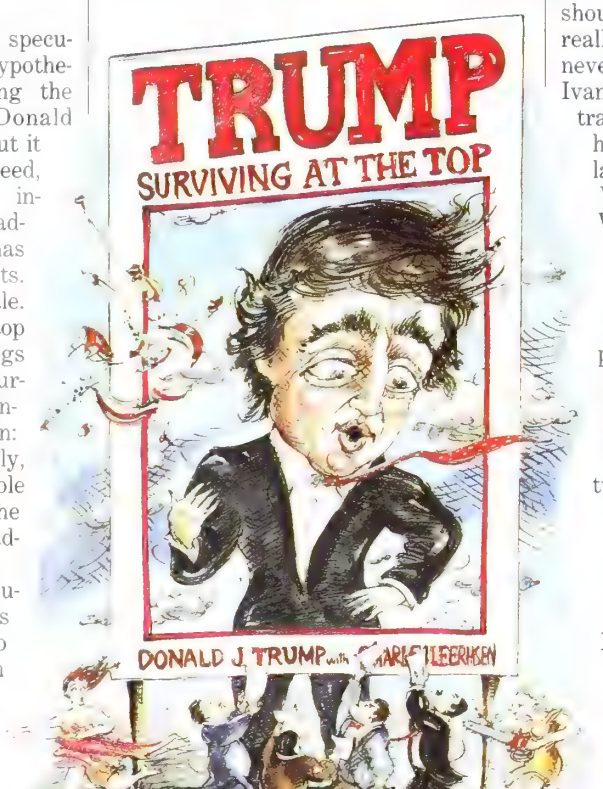
Future generations of scholars, speculating on the symbolism, may hypothesize that the apple—representing the book—is rotten. Too harsh. Donald Trump has written a bad book, but it is not entirely objectionable. Indeed, this tome—part superficial and incomplete memoir, part dubious-advice handbook, part polemic—has some mildly interesting elements. Not the least of which is the title. Trump, at age 44, may be at the top in some realms, such as buildings with polished floors, but is he "surviving"? The most charitable answer is probably another question: "Surviving at what?" Financially, he is on shaky, perhaps untenable ground. As a celebrity, however, he should be inspiring tabloid headlines for some time to come.

Regardless of the fate of its author's far-flung empire, this book is almost certain to thrive, thanks to Trump's willingness to bad-mouth others with abandon. For sheer nastiness, *Surviving*, written with *Newsweek* senior writer Charles Leerhsen, is far more impressive than 1987's best-selling *Trump: The Art of the Deal*.

When that book hit the stores, the realtor-dealmaker-fight promoter-casino operator was riding high. With a few exceptions, such as a U. S. Football League franchise, everything he touched turned to platinum. For a time, he was even the hero of the fickle New York press after he swiftly rebuilt a Central Park skating rink at his own expense.

There are few such triumphs in Trump's life today. His much-publicized woes have clearly taken their toll on him, and this book has a distinctly bitter edge—to put it mildly. Whatever the original purpose of *Surviving*, which was in the works well before his recent travails but was updated as recently as July, it reads as if it were designed to settle some old scores—and some new ones.

At the top of Trump's enemies list is the press. He saves some of his nastiest jabs for *Time* and *Forbes*, which have run unflattering articles about him, as well as for the latter's recently deceased publisher, Malcolm Forbes. *Forbes* ran a



cover story in May questioning Trump's net worth. Other journalists—and, recently, Trump's own accountants—also have indicated that Trump's holdings might not be worth what he once said. Earlier, the financial soundness of Trump's Taj Mahal casino had been questioned by a brokerage house analyst—who was fired after Trump beefed.

That incident isn't mentioned here, perhaps because the analyst is alive. Not alive, and thus not in a position to dispute what Trump says or file a libel suit, is Malcolm Forbes. Trump says that *Forbes*'s May article stemmed from an incident at Trump's Plaza hotel in whi Forbes supposedly was rebuffed wh he tried to enter a bar with "a couple his young male companions" who we underage. Even though the *Forbes* ar cle appeared after Forbes died, Trur sees it as the climax of a long-simmeri vendetta—"Malcolm finally getting ba at me from the grave."

Perhaps Trump can be forgiven su vindictive lapses. After all, it must disconcerting to see one's domes squabbles played out daily in the *Ne York Post*. Tabloid readers will find l tle enlightenment here on Donald's a Ivana's marital woes. "Ivana, I shou point out for the sake of fairness, h never been as certain as I that v should part," Trump writes. "She nev really stopped loving me and I hope s never will. Likewise, I will always lo Ivana." So charitable is he about his e tranged wife that one can almost s his jaw muscles tightening and h lawyers hovering as he writes.

Why did the two lovebirds break u Was it . . . Marla Maples? Those w purchase this book in hopes of asce taining all the lusty details ("Be Sex I Ever Had," one tab breat lessly "quoted" Marla) will be disa pointed. Readers will find Ms. Mapl mentioned only once, on page 5 Marla, Trump states, "is a terri person, but my relationship with h was not the cause of the trouble b tween Ivana and me."

Trump's book is liveliest when h has an ax to grind. Much of *Survi ing* is devoted to good old-fashion character assassination, making it kind of sleazy good read. Leo Helmsley, for example, is describe here as "vindictive," a "bully," po sessed of a "crazed personality and—in case we missed th point—a "bitch on wheels." Ne York *Daily News* gossip columni Liz Smith "used to kiss my ass s much that it was downright er barrassing." And then there Frank Sinatra, the less-than-ide dinner companion. "You f— broads a all alike," Old Blue Eyes allegedly a serted, without much provocation, whi dining with his wife and Mr. and Mr Trump. "You're the scum of the earth

To be fair, Trump doesn't trash ever one. Merv Griffin, his rival in the bid f Resorts International Inc., is treate gently. Buyout artist Henry Kravis lionized. But no one gets more sustaine stroking than Donald Trump. Smart, he says so himself. And tough—a who chapter on that ("I have a reputation f being tough, and I'd like to think it justified"). He's also envied: "At or time I'd been thinking about calling th

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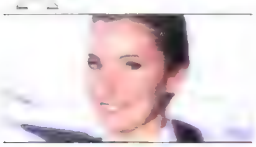

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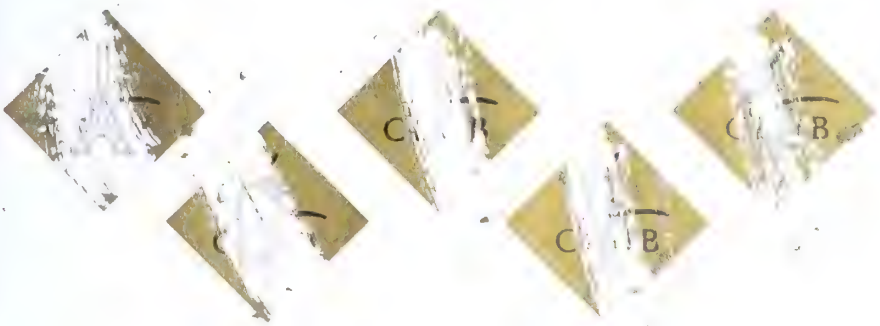

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book *Everybody Hates a Winner*. That's a dubious proposition, but there no denying that some people don't lik Donald Trump. Damned if I know wh

BY GARY WEIS

Weiss is BUSINESS WEEK's Markets Investments editor.

BOOK BRIEFS

POOR RICHARD'S LEGACY: AMERICAN BUSINESS VALUES FROM BENJAMIN FRANKLIN TO DONALD TRUMP

By Peter Baida

Morrow • 360pp • $22.95

A warning to the serious schola Very little of what Peter Baid writes in *Poor Richard's Legac* is new or controversial. You can fin much of the same material in Alfred D Chandler's classic *The Visible Hand* or dozen other business histories. But wh plow through them when you can rea Baida? Light and unabashedly deriva tive, *Poor Richard's Legacy* is a marve ous introduction to the history of bus ness thinking in America.

Baida draws fairly standard profile of such industrial giants as John Jaco Astor, Andrew Carnegie, and Thoma Watson Sr. What makes his portrait interesting is the context: lessons fro self-help gurus and dissenting voices o the period that serve as a counterpoint

So we hear William Ellery Channing a Boston pastor, complain in 1842: "How widely spread is the passion for acquis tion, not for simple means of subsis tence, but for wealth!" We revisit sales man Willy Loman in the ironic light o *Acres of Diamonds*, a sermon-lectur holding that anyone can succeed, whic preacher Russell Conwell delivered mor than 6,000 times before his death i 1925. Baida's work is a literary appe tizer: You'll come away with a new read ing list.

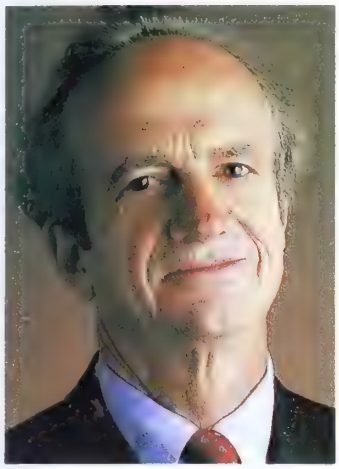
Baida makes little effort to synthesiz or analyze. After putting forth Benjamin Franklin as the key voice in U.S. bus ness history, he barely refers to the les sons of the Philadelphia sage until th book's conclusion. Only then does he re mind us how far we have traveled fron Franklin's "industry and frugality" t debt, decline, and *Looking Out for #1*

But so what? *Poor Richard's Legac* is fun. Baida ends with an extravagan fantasy: a party at which American from all eras are guests. "Donald Trump is making a deal with John Jacob Astor Lee Iacocca has buttonholed Henry Ford; Thorstein Veblen is reading *Wha Makes Sammy Run?*; . . . Dale Carnegie explains how to win friends and influ ence people; and Melville's Bartleby de clares that he, for one, would prefer no to." It's quite a bash. Join in.

BY KEITH H. HAMMONDS

LIFE TENURE FOR JUDGES IS AN IDEA WHOSE TIME HAS GONE

BY GARY S. BECKER



Contrary to the founding fathers' intent, the federal judiciary has become so powerful that it is, in effect, a second legislative body. Given the huge pressures judges face, that power is too great to last a lifetime

Is it wise to continue to give indefinite tenure to judges who are under enormous pressure to help make laws through creative readings of precedents, statutes, and constitutional provisions?

One of our founding fathers, Alexander Hamilton, warned in the *Federalist Papers* that if courts were "disposed to exercise Will instead of Judgement, the consequence would equally be the substitution of their pleasure to that of the legislative body." He felt that lifetime tenure gives judges the independence from politics that would encourage them to interpret the Constitution rather than exercise "will." During the 19th century, Hamilton appeared to be right, because judges generally took a rather limited view of their purpose.

But the behavior of judges changed radically in the wake of the enormous expansion of the federal government during this century. In modern times, thousands of groups look to the government for help in solving their economic and social problems. The legislative and executive branches have responded with massive growth in spending, taxes, and regulations that has created endless litigation in the federal courts.

How can judges, especially justices of the U. S. Supreme Court, take a narrow view of their responsibilities when they are asked to rule on abortion, civil rights, worker discharge, taking of property, AIDS testing, and untold other issues on which important segments of the American people have passionately held views? To expect judges to resist such pressure and adopt a limited interpretation of their power assumes an unrealistic view of human nature.

POPULARITY CONTEST? In his recent, provocative *The Tempting of America*, Robert H. Bork exhorts federal judges to "consider themselves bound by law that is independent of their own views of the desirable . . . and not make or apply any policy not fairly found in the Constitution or a statute." While he argues persuasively against both liberal and conservative thinkers who want judges to be guided by contemporary beliefs about what is fair, the appropriate economic system, and other principles that can be found in the Constitution only by straining, he does not examine whether judges are likely to follow his advice under present circumstances.

The answer is clearly no, because, like other professionals, judges are influenced by a desire to be popular with friends and the media, by prevailing views of what is fair and the proper role of governments, and by other ideas they have been exposed to as students and practicing attorneys. The mood among all outspoken groups is to immediately look to the government, including the judiciary, to remedy ills and resolve controversial issues. Judges inevitably try to respond to this mood, and lifetime tenure permits them to do so without having to worry about reappointment or forced retirement.

Judicial decisions have a major impact on all segments of the population, so it is certainly proper for the Senate to closely question nominees for the U. S. Supreme Court and other federal courts about their opinions on controversial subjects. That this was seldom done in the past is not a valid reason for the Senate to refrain now when courts are more influential and judges are under pressure to issue decisions that may express only their personal opinions.

That is why Supreme Court nominee David H. Souter should be pressed hard to state his general philosophy and his thinking on important public issues.

RADICAL REFORM. But close questioning of nominees is not enough. I believe that much more radical reform is needed. The resignation of U. S. Supreme Court Justice William J. Brennan Jr. and the anticipated departures of other octogenarian justices make it timely to reconsider the constitutionally stipulated lifetime tenure of federal judges. I say this because the judiciary has, in effect, become a second legislative body. It is time to begin to think about amending the Constitution to give federal judges fixed terms that could be renewed—or not—when they expire.

Hamilton's discussion in the *Federalist Papers* suggests that many of the founding fathers would have supported fixed terms subject to renewal rather than lifetime tenure if they expected judges to exercise "will" rather than "judgement."

The details of such a major reform would have to be worked out carefully, but federal judges' terms might run for 12 to 16 years—perhaps the latter for Supreme Court justices. Even 12 to 16 years extends well beyond even a two-term President's ability to make appointments and often beyond the period of the subsequent President. An appointment needs to be long enough to insulate judges against momentary whims of the electorate, yet it also needs to give Presidents the opportunity not to reappoint judges who are ill or incompetent, who issue outrageous opinions, or who use unreasonable interpretations of statutes and the Constitution to oppose consistently popular views of the vast majority of the people.

It is necessary to control the enormous power exercised by a small group of men and women over the lives of the American people. ▣

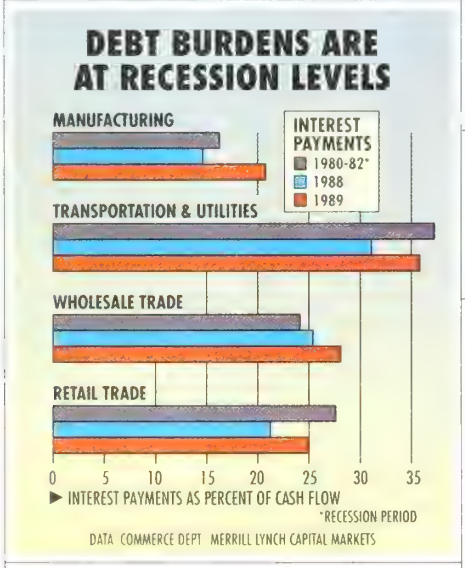
GARY S. BECKER IS UNIVERSITY PROFESSOR OF ECONOMICS AND SOCIOLOGY AT THE UNIVERSITY OF CHICAGO

BY GENE KORETZ

DEBT STARTS TO TAKE A BIGGER BITE OUT OF COMPANIES' HIDES

With the risk of recession looming ever larger, fears regarding the dangers inherent in the leveraged condition of U. S. corporations are taking on new urgency. Just how vulnerable are debt-laden companies and industries to recessionary forces? Economist Robert A. Schwartz of Merrill Lynch Capital Markets has reviewed the evidence, and his analysis is not reassuring.

On the positive side, Schwartz notes that recent revisions of the national income accounts reveal that business' overall debt-servicing capacity held up far better in 1987 and 1988 than first reported. The data show that the ratio of interest payments to cash flow (profits plus depreciation before net interest outlays) merely edged up from 19% in 1985 to 20% in 1988—still well below the 1980-82 recession average of 24%.



For 1989, however, the revised data indicate that the ratio of interest payments to cash flow for nonfinancial corporations jumped sharply. At last count in the first quarter of this year it was up to 27.3%, equaling the previous record set during the 1974 recession year.

Indeed, by last year the corporate sector had less cash flow to cover interest payments than in any of the past four recessions. Although most industries were affected (chart), not all are equally vulnerable. Schwartz points out that ratios for durable-goods makers, for example, have actually been halved since the last recession, leaving them in relatively good shape to weather a downturn. But the overall ratio for manufacturing has been pushed up by a steep rise in the debt burdens of nondurable-goods producers, whose interest-to-cash-flow ratios have risen sharply, from 13.5% in 1980-82 to 28.2% last year.

While the oil crisis may ease the plight of petroleum companies by boosting their revenues, it will raise costs and thus heighten the cash-flow problems of other nondurable-goods industries such as chemicals, food, paper, and printing. And the wholesale and retail trade sectors, whose interest burdens are already at recession levels, seem particularly vulnerable if a full-fledged contraction develops, since they are subject to sharp cyclical downswings in cash flow.

"Many companies are desperately trying to repair their balance sheets by curtailing borrowing, cutting capital spending, and deferring hiring," says Schwartz. "The trouble is that the cumulative effect of such efforts is to increase the chances of the kind of economic slump they most fear."

RISKY VS. SAFE BONDS: THE RATINGS GAP SHOULD START TO WIDEN

Here's a mystery: Concern about the viability of debt-laden companies in a recession is growing, yet the quality spread between interest rates of high-rated corporate bonds and those deemed relatively risky are unusually narrow.

Since early last year, the average monthly spread between Baa- and Aaa-rated corporate bonds has consistently stayed below 100 basis points after averaging 125 to 150 basis points during much of the expansion. Normally, quality spreads narrow in good times and widen during slowdowns, because highly leveraged companies are more vulnerable when the going gets rough. So why hasn't it happened this time around?

Economist Steven A. Zimmer of the Federal Reserve Bank of New York thinks he has the answer. In a study in the latest issue of the bank's *Quarterly Review*, he concludes that the surge in debt-financed mergers and acquisitions in the 1980s induced a general rise in corporate bond rates, as lenders sought compensation for the risk that leveraged takeovers could suddenly lower the value of their bond holdings.

Zimmer's analysis shows that bond rates rose most for the least leveraged companies, presumably because they were the most vulnerable to a takeover—and had the most to lose. That in itself was enough to narrow quality spreads, but other effects were also apparent. In particular, many compan tended to take on more debt, partly defend themselves against takeov and partly because the narrowing quality spreads lowered the margi cost of additional borrowing.

In any case, with debt now increasi ly out of fashion, Zimmer thinks th quality spreads are likely to wid again. "Just as it took time for the m ket to realize that event risk was wo worrying about," he explains, "it is t ing time for it to recognize that the r has diminished."

SMALL BUSINESSMEN AND CONSUMERS ALIKE ARE LOSING HEART

Confidence in the economy's forwa momentum is waning. The lat sign is the July quarterly survey of t National Federation of Independe Business, which reports that its sm business-optimism index fell to its low level since the 1982 recession. NFIB ch economist William C. Dunkelberg no that "the membership survey was tak before the oil crisis, so small business optimism has undoubtedly deteriorat since then."

Meanwhile, consumers are also si ing the blues. Both the University Michigan's consumer-sentiment ind and the Conference Board's consum confidence index slipped in July, w the latter standing at 15% below Ju 1989—its largest year-over-year dr since 1982. What's more, early surv results suggest that both indexes post sharp declines in August.

REAL ESTATE TAKES ANOTHER STRAIGHT RIGHT TO THE JAW

Commercial real estate, already re ing from the slump in office co struction, is about to be decked by sharp downturn in the building of ret outlets. According to the Internation Council of Shopping Centers, the nu ber of new shopping center starts in t U. S. in the first half of 1990 was 24 below its year-earlier level—the large drop in a decade.

While cutbacks in bank lending help foster the downturn, economist Dav Shulman of Salomon Brothers thin that slumping retail sales will cause it accelerate. "With a recession develo ing," he says, "we believe that shoppi center starts could plunge another 25 by the middle of next year."

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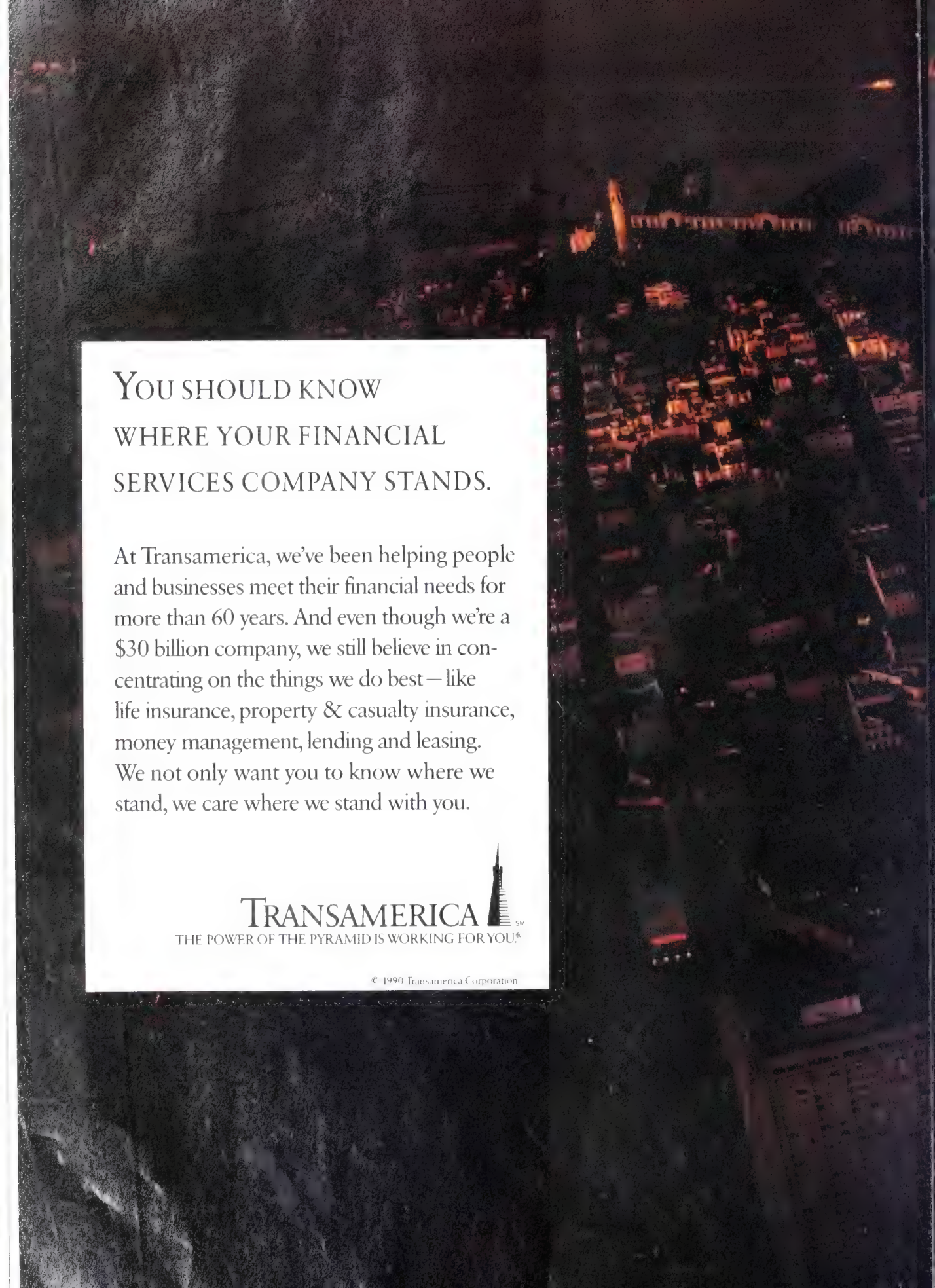

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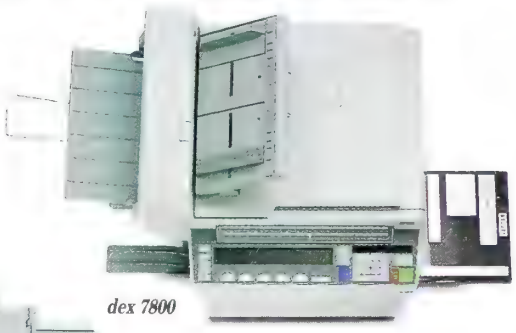

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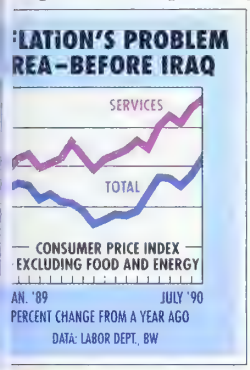
TEMBER 3, 1990

BY JAMES C. COOPER AND KATHLEEN MADIGAN

N THIS MINEFIELD, ONE WRONG STEP OULD ROCK THE ECONOMY

he swirling sands in the Middle East continue to cloud the outlook. As the threat of U. S. military action grows, the future price of oil becomes anyly's guess. The economic data are no help, since they l predate the crisis. Making matters still murkier, nomic policy seems just as much a hostage as the sterners now trapped in Kuwait and Iraq.

Clearly, the Persian Gulf crisis has placed new stress an already-weak economy, but it has also hamstrung icymakers. The Federal Reserve Board has its back to wall, and chances for a meaningful cut in the 1991 lget deficit are fading because events overseas limit options on spending cuts and tax hikes.



The 1990 budget is already a disaster. The Treasury spent $25.9 billion more in July than it took in, bringing the deficit for the first 10 months of the fiscal year to $189.1 billion. The costs of the thrift industry bailout and the military buildup in Saudi Arabia could easily swell the final total to $225 billion. If so, that would be the largest deficit on record, and without a budget al, the 1991 red ink will be even greater.

The Fed is in a minefield. Without a budget package, oses what the financial markets see as a key condition further easing of monetary policy. The central bank s already lost credibility with the markets after its sing on July 13, which Wall Street viewed as a capitulion in the inflation fight.

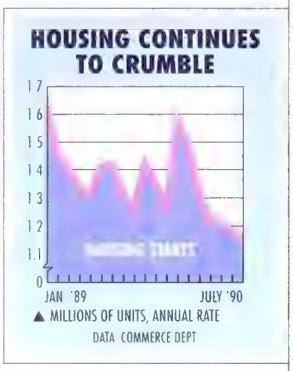
Had the surge in oil prices not darkened the inflation ture, the Fed might well have eased monetary policy now in an effort to shore up the expansion. A further mplication is the weakening dollar, which hurts U. S. forts to attract foreign financing. It could deteriorate rther in the wake of another easing move (page 33).

NOT ALL SUMMER READING IS LIGHT

Despite the policy uncertainties, this much is clear: The economy had plenty of problems even before the specter of an oil war. Except for exports, manufacturing as floundering. Housing was in deep trouble. Jobs ere getting scarce. Consumers had just about thrown the towel. And consumer prices were rising uncomrtably fast—pushed higher by service inflation (chart). Initial clues on the Middle East's economic impact will art showing up in the August data, mostly due in ptember. Since higher oil prices act like a tax, the first effects will show up in the spending indicators, as opposed to those relating to employment and production.

Mid- and late-August car sales, due on Aug. 23 and Sept. 6, could be revealing, since purchases of big-ticket items will be among the first to reflect increased consumer caution. Broader gauges of any change in consumer behavior will be the Conference Board's index of consumer confidence, due on Aug. 30, and retail sales, on Sept. 14. The Commerce Dept.'s survey of capital spending plans, out on Sept. 6, might show a shift on the part of businesses, although some of the companies responded before the Iraqi invasion of Kuwait.

Until then, economy watchers will have to be satisfied with the remainder of the July data. And most of them don't make for pleasant reading.



The July consumer price index, for example, rose a steep 0.4%. It was up an even sharper 0.6% when energy and food are excluded. Energy prices fell in July, but that will be more than offset in the August numbers. Oil prices topped $31 per barrel on Aug. 22.

The July CPI emphasized the stubbornness of inflation prior to the oil shock. The biggest problem is service prices. Excluding energy, they rose a steep 0.7% in July. Service inflation during the past year was 5.9%, while prices of nonfood, nonenergy goods were up only 3.5%. Improvement in service inflation will come as the economy weakens, but not until 1991.

Add in the boost from higher oil prices, and the CPI could easily rise 1% in both August and September. Even if the monthly gains settle down to 0.4% during the rest of the year, consumer inflation is likely to end the year around 6.5%, up from 4.6% a year ago.

DON'T TELL BUILDERS THERE'S NO RECESSION

Housing was already falling like a rock prior to the turmoil. That was clear from the 2.6% drop in housing starts in July, to an annual rate of 1.15 million—the lowest since the 1981-82 recession (chart). Now, the upward push on long-term interest rates exerted by higher oil prices just makes matters worse.

Indeed, lower mortgage rates may not have made much of a difference to the housing outlook. Demographics, slower income growth, the sluggish resale market, and weak home prices are already hurting demand for new homes. Between the surplus of apartment

buildings that resulted from the 1980s' building boom and today's stricter lending requirements, most plans for multifamily building projects have fallen off the drawing board. Already, such construction is at its lowest level since the 1973-75 recession.

Nowhere are builders' woes more evident than in the recession-racked Northeast. Housing starts there are down some 29% from the first seven months of 1989, when they were 23% below the same period of 1988. But signs of the housing slump are showing up elsewhere. Starts in the South are 7% below a year ago. The West is down 9.5%, and Midwest activity is up only 2.2%.

The housing outlook isn't very encouraging, even if oil prices hold steady. Solving the sector's wide-ranging problems will take time, and homebuilding is unlikely to climb out of its tailspin until 1991.

OIL POLLUTES THE TRADE RECOVERY

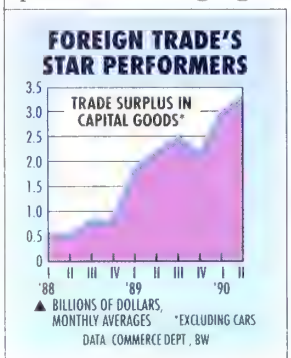
Although rising oil prices will have little effect on housing's future, they will have a large impact on the foreign trade outlook. With more than half of our petroleum coming from overseas, higher oil prices mean a bigger overall import bill. And that will leave less money for consumers and businesses to spend elsewhere.

The trade deficit continued to improve in June. The merchandise trade gap narrowed appreciably, from $7.8 billion in May to just $5.1 billion—the lowest monthly total in seven years. Much of the June improvement, however, came from a drop in oil imports, both in volume and in dollar terms. That decline caused total merchandise imports to fall 2.9%, to $39.4 billion.

The Commerce Dept. says that in June, the average price of foreign crude oil was $13.88 per barrel. It's twice that now. That means that oil will add almost $3 billion to the import numbers for August, and fuel-import costs are likely to stay high in following months.

Some of the higher oil bill will be offset by lower consumption of other foreign goods. Excluding oil, imports are up just 1.4% in the first half of this year, dow from the 7.2% pace in the first six months of 1989. I June, incoming shipments of consumer and capital goo were down slightly from a year earlier. And car impor have been flat for more than two years.

As domestic demand continues to sag, the growth i nonoil imports will decline further. Import growth coul also be hurt if the falling dollar causes foreign produce to mark up their prices. More expensive imports will onl add to the Fed's policy headaches, however, since highe prices for foreign goods get added into the CPI.



The weaker dollar has been boon to U. S. exporters. Foreig markets are already helping t keep American industrie afloat. In June, exports shot u 4.6%, to a record $34.3 billion.

Manufacturers of heavy ma chinery have made wide inroad into global markets. Exports o capital equipment are up b 12.9% so far this year and hav accounted for 56% of all expor growth in the past 12 months. With our imports o similar goods lagging, the U. S. trade surplus of capita equipment has grown rapidly, rising to a monthly aver age of $3.2 billion in the second quarter (chart).

For the rest of 1990, the monthly trade data shoul look pretty bad, since higher oil prices will bump u import totals. But after adjusting for price changes, th oil numbers may not look so awful, since the gulf crisi has reduced oil shipments from the Mideast. Couple tha with slower growth in nonoil imports and fairly healthy gains in exports, and the trade sector may, in fact, b one source of economic growth in the second half.

That's not much consolation. The rest of the economy is teetering on the edge of recession, and the shock waves from the Middle East have only begun to hit.

THE WEEK AHEAD

PERSONAL INCOME

Monday, Aug. 27, 10 a.m.
Personal income probably advanced by about 0.4% in July, the same modest gain as in June, according to the consensus of economists surveyed by MMS International, a division of McGraw-Hill Inc. The July increase is suggested by a healthy rise in average nonfarm weekly earnings. The MMS consensus also calls for a 0.4% rise in consumer spending for July. The gain may be smaller, however, because of falling new-car sales. Spending had risen a strong 1% in June but was flat in May. Consumers were pulling back on spending long before the Persian Gulf crisis. The uncertainty in the Middle East makes the outlook for consumer spending in the second half even more downbeat.

LEADING INDICATORS

Wednesday, Aug. 29, 8:30 a.m.
The government's composite index of leading indicators probably fell by about 0.2% in July, after no change in June. This is suggested by lower stock prices, shorter delivery times, and declines in consumer expectations and building permits. The indicators' lackluster performance this year suggests the economy will remain weak heading into 1991.

NEW SINGLE-FAMILY HOME SALES

Wednesday, Aug. 29, 10 a.m.
The MMS consensus is that new-home sales declined to an annual rate of 540,000 in July, from a 581,000 pace in June. The poor July performance is suggested by the drop in housing starts for the month and rising mortgage rates. So far this year, home sales are 10% below their level of a year ago.

FACTORY INVENTORIES

Thursday, Aug. 30, 10 a.m.
Inventories held by manufacturers likely slipped by about 0.2% in July. Factory stockpiles have increased in only one of the previous five months, suggesting inventories are not at excessively high levels despite lackluster domestic spending. In May, inventories fell by 0.5%. The MMS consensus expects that factory orders probably rose by about 0.4% in July, after dropping 1.5% in June.

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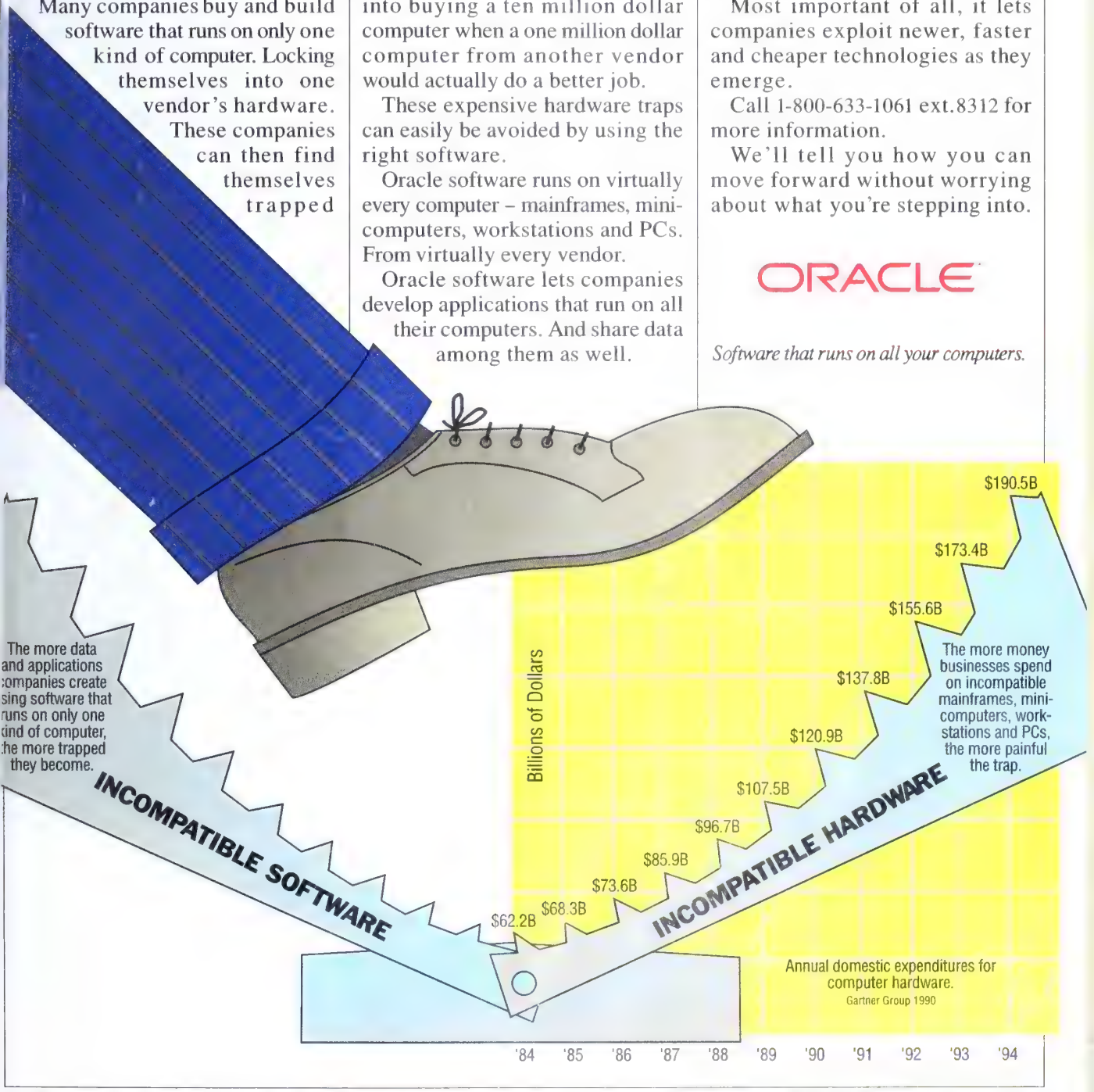

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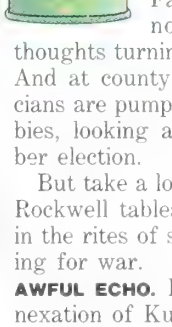
SEPTEMBER 3, 1990

COVER STORY

AN EERIE CALM IN THE DESERT

THE MASSIVE BUILDUP RECALLS SEPTEMBER, 1939



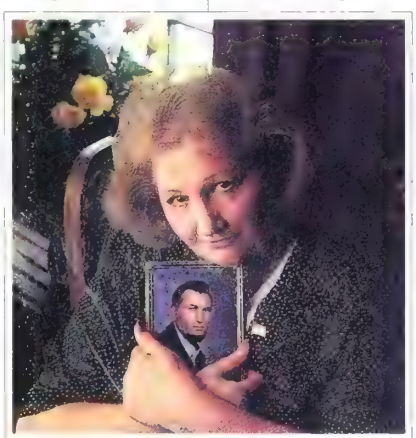
In many ways, it's business as usual in America. Vacationers are flocking to beaches, intent on drawing the last ounce of pleasure from the dwindling days of summer. Farmers are eyeing crops now golden, with their thoughts turning to the autumn harvest. And at county fairs everywhere, politicians are pumping hands and kissing babies, looking ahead to another November election.

But take a longer look at this Norman Rockwell tableau. For even as it revels in the rites of summer, America is steeling for war.

AWFUL ECHO. Responding to Iraq's annexation of Kuwait, an allied armada is cruising the Persian Gulf. U.S. troops are pouring into Saudi Arabia—some of them flown over on conscripted commercial airliners—in a massive deployment that could eventually reach 250,000 or more. Over the airwaves pulses a stream of on-the-scene reports, as khaki-clad TV reporters breathlessly attest to the high morale of U.S. troops and the superiority of American air power. George Bush and Saddam Hussein are trading threats, one vowing to defend the American "way of life," the other to guard "Muslim holy sites" from Western defilers.

The Oil War of 1990 is at a flash point. Amid an eerie quiet, armed forces are massing in the Mideast. In some ways, the buildup resembles the prelude to World War II. Just as now, battle lines were clearly drawn after Hitler's September, 1939, blitzkrieg into Poland. But all-out war was delayed until the following spring as Allied and Axis nations methodically assembled the troops, planes, ships, and armor that are essential to 20th century warfare. The lull was dubbed the Phony War, a time of rhetorical jousts and profuse patriotism. A time very much like the present.

Is war inevitable? No. With the U.S. enforcing a naval embargo of Iraqi oil and the U.N. mulling calls to broaden the blockade into a truly multinational operation, there remains a chance that President Bush's plan to strangle Iraq's economy can succeed. But Saddam has raised tensions dramatically with his decision to use Western hostages as human shields against U.S. bombing attacks. Despite the desperate hopes of the hostages' families, chances for a diplomatic solution to the crisis are fading fast.



Marjorie Walterscheid of Texas with a photo of her husband, Rainard, who is missing in Kuwait and may be a hostage

LITTLE DEBATE. Iraq already has massed 170,000 troops on the Saudi border, and it's moving more down daily from the Iranian front. It also may be installing medium-range missiles within easy range of Riyadh. From the Iraqi capital, there is menacing talk of starved Western hostages—the Iraqi euphemism is "guests"—and of U.S. soldiers returning home in body bags.

President Bush's response, made with little public debate, has been to embark on the largest U.S. military commitmen since the Vietnam War. Acting unde orders to halt any shipment of essentia goods to Iraq, Navy warships are nov challenging Iraq's tankers in the gulf while U.S. and Saudi fighter pilots play aerial tag with Iraqi jets in the skies Sooner or later, these cat-and-mouse en counters could become deadly.

Bush seems to prefer that any nasti ness come later. For one thing, by Aug 22, the U.S. had only an estimated

U.S. troops arrive at King Abdul Air Base in Saudi Arabia: The deployment could reach 250,000 or more

,000 ground troops in Saudi Arabia, r short of the number needed to repel armored assault or launch a mission rescue hostages. The President is agozing over the prospect of American cians being held captive at Iraq's key dustrial plants—prime targets of some ture air strike. But Pentagon planners e urging that the buildup continue for least another week to 10 days before e military makes a move.

It's uncertain whether Bush will get that much time or, if he does, how much military support the U.S. can expect from any of its European allies, save Britain. At home, the President now faces no such doubts. Polls show that Americans seem grimly resigned to the looming war in the gulf, that they're aware of the importance of the region's oil, and are largely united on the need to crush Saddam, whom they see as a villain straight out of central casting.

Because of this clear-cut understanding of what's at stake for America, war, if it comes, won't be marked by the same kind of agonized soul-searching that marked U.S. intervention in Vietnam. As the gulf conflict drags on, U.S. bravado may fade, and with it any lockstep expressions of support for Commander-in-Chief Bush. But this time, at least, Americans will know what they're fighting for.

By Lee Walczak in Washington

COVER STORY

'THEY'RE LOOKING FOR FOOD EVERYWHERE'

Iraq's economy is virtually paralyzed by the embargo and sanctions—but Saddam is steadfast

Saddam Hussein's civilian economy is grinding to a halt. With Iraq's last major link to the sea, Jordan's port of Aqaba, nearly closed, food shortages have hit Baghdad, thousands of Iraqis have been thrown out of work, and crucial foreign workers are fleeing. "The only traffic is military vehicles," says Zekiriya Cavusoglu, an official of the Turkish construction company ENKA, who was able to make it back home. "The shops are closed, and people are complaining bitterly."

None of which is likely to soften Saddam's resolve quickly. His response to sanctions has been to gear up his military, turning Iraq's economy into even more of a war machine. Non-Western workers, engineers, and diplomats reaching the outside world say thousands of Iraqi men are being called up to join the army. Barracks lining the road around the northern Iraqi city of Mosul (map), for example, "are nearly bursting," says Dejan Nikolin, a Yugoslav who worked for a computer company in Kuwait.

But the bite of sanctions threatens to become even more painful, because most ships carrying food and other Iraq-bound cargoes have halted unloading at Aqaba. Saddam's cash crunch is also certain to deepen, and a continued outflow of foreigners, some of whom perform vital functions in the Iraqi economy, could begin to hurt.

Jordan's King Hussein has not ordered the port of Aqaba closed, but shippers have begun respecting the U. N. embargo now that U. S. warships have fired across the bows of Iraqi tankers. Moreover, shippers are worried about how they'll get paid, since Iraq is essentially insolvent. Iraq has had to resort to plunder from Kuwait to come up with the money to pay for whatever supplies are getting through. "They have no cash except what they got from Kuwait, perhaps $2 billion," says Fahed Fanek, a Jordanian economist.

That means business is getting bad, fast. Youssef Amro, an owner of the Al Nasser Clearing and Transport Co., which accounts for half of the business of transporting foreign wheat from Aqaba to Iraq, usually operates 300 trucks a day. But Amru says ships carrying t grain into Aqaba stopped arriving Aug. 21. Now, his entire fleet is idle.

Although the Iraqis are self-sufficie in fruits and vegetables, diplomats arr ing at Iraq's borders say shortages rice, sugar, and milk are developing Baghdad. Iraqi children are appeari on television talking about not eati candy to save the national economy.

SMUGGLING. There are signs that the effectiveness of sanctions caught t Iraqis by surprise. Robin M. R. Smith, Canadian who runs a chicken canni business outside Amman, says a Jorda an representing Iraq approached him ter sanctions were declared and ask for an order of a million chickens. The aren't that many chickens in all of Jo dan. Smith thought it was unwise to business with Iraq right now. The le son, he says: In Iraq, "they're looki for food everywhere."

On Iraq's northern flank, Turkey h maintained a near-total embargo. Th has cut off Iraq's lifeline to Turki farm products, European machiner and spare parts. In southern Turkey, e tire towns along the heavily traffick

REFUGEES CROSSING INTO JORDAN: A MASS EXODUS COULD HURT IRAQ'S AGRICULTURE

4 highway, better known as the Silk ad, have been idled. Travelers say the ne thing is happening in many towns oss northern Iraq. Despite Iraq's ıce overture toward Iran, there's no dence that food or supplies are mov- overland across their border.

Some predict that smuggling will de- op across the Turkish and Iranian ders—but not much, for the terrain is ınting and major supply routes could spotted by U. S. spy satellites. Leaks the embargo may emerge in the air es. The Israelis, for example, suspect rth Korea of airlifting military spare ts. But neither smuggling nor air pments will be enough to compensate the loss of truck and shipping routes. Even if the confrontation in the gulf re to end tomorrow, Saddam has lost ars of work in economic development. nstruction of the $2.5 billion Bakhma n in northern Iraq has been disrupted Turks and Yugoslavs doing the work er out of Iraq. South Korean engi- ers also have fled, leaving $938 million unfinished projects.

UARING OFF. A more immediate prob- ı could be the outflow of Egyptians. ficials in Cairo say 1.6 million Egyp- ns are in Iraq, by far the largest sin- group of expatriates there. About 000 Egyptians have fled so far, but iro expects at least 300,000. If such an odus develops, it could hurt Iraq's ag- ultural effort, because fully half of Egyptians in Iraq are engaged in riculture. With Iraq's oil industry es- ıtially shut down and big construction ojects on hold, some of the Egyptians e no longer needed. Others, though, ıo perform vital jobs in, say, Iraq's cket development program, could be pt from departing.

Still, the flight of the Egyptians and ıer foreigners will force Saddam to ıg holes in his economy at the same ne he is squaring off to face the Amer- ns. "Where's he going to get the peo- to put in the factories and fields?" ks Jean Abinader, president of the ab-U. S. Chamber of Commerce in ashington. "And how is he going to y them?"

What remains unknown is at what int these economic troubles might be ough to create a political backlash. In e past, Saddam has used his secret lice and the army to crush even a ıisper of dissent. But the economic ice that Iraq is paying is far greater an anything it experienced during its ght-year war with Iran. Saddam's abili- to run a command economy is being ıt to the test as never before.

By Stanley Reed in Ruwayshed at the rdanian-Iraqi frontier and Thomas Goltz the Habur Gate on the Turkish-Iraqi bor- r, with Marilyn Achiron in Cairo, and reau reports

JORDAN: BITTER REFUGEES AND ANGRY DEMONSTRATORS

A rite of passage in covering the gulf crisis from Jordan is the trip to the Iraqi border. It's a 3½-hour ride over a jarring road rutted from truck traffic between Baghdad and the crucial Jordanian port of Aqaba. The view is unrelenting: a black basalt desert that is one of the world's bleakest. The only relief is an occasional ancient fortress, including a Roman one that served as Lawrence of Arabia's headquarters during World War I. At the scruffy little border post of Ruwayshed, you get to stand in the blazing sun, interviewing crowds of refugees from Kuwait who have been on the road for four days.

SIDING WITH SADDAM: A PROTEST IN AMMAN

The refugees will sprawl anywhere there is shade—under trees that are not much more than shrubs, trucks, the roofs of customs sheds. Most of them are Egyptians, either peasants in robes and short turbans or clerical workers and engineers in cheap Western clothing. At least 50,000 Egyptians crossed into Jordan before the border was temporarily closed Aug 22. The Jordanians asked Iraq to slow the flow because there aren't enough ferries and planes to get them quickly back to Egypt.

The Egyptians are angry at their own leaders for not doing enough to help them. "Tell President Mubarak we are here," is a common refrain. But they have even greater disdain for the Iraqis, who stripped them of their money and anything else of value, including electronic gear and cars. "Saddam Hussein is a thief," says Mohammed Mahmoud Nour Khalil, an engineer from Cairo. He explains that the Iraqis robbed him of 300 Kuwaiti dinars and two gold chains. "I want the U. S. to kill Saddam," he adds, to the hearty agreement of his countrymen.

'JEALOUS.' Many tell stories of Iraqi military vehicles being loaded with Kuwaiti consumer goods. A British woman named Katherine Hamaoui and her Lebanese husband Mustafa, along with sons Tarek, 4, and Karim, 8, were exhausted after driving all night. "We have lost everything," she said. "Our villa, our furnishings, our money, and our dog." The Iraqis in Kuwait, both military and peasants, were clearly after Kuwait's material wealth. "I can see now why the Iraqis were so jealous of Kuwait," she said. "They're living in the Middle Ages by comparison."

Despite the swirling crisis, a reporter's lot in Jordan is not all hard duty. For relief, there's the Intercontinental Hotel, perhaps the quintessential journalists' hangout in the Mideast. When you reach Amman and call sources, they ask: "What's your room number?" They know the hotel.

FULL SPECTRUM. All in all, Amman is a pretty town and an easy one to work. With a little coordination, you can see the whole Mideast political spectrum—the Baathists, the Moslem Brothers, a friend of the King, and a Palestine Liberation Organization figure in one morning. Then, in the afternoon, a hotel taxi can whisk you to one of the demonstrations that are conveniently advertised.

But Amman is not as open as it seems. World attention and pressure are making people in authority very uncomfortable. In Zarqa, a satellite city outside of Amman, I was watching a Moslem Brotherhood demonstration against the U. S. presence in the gulf from a taxi. With a sharp smack on the car top, a tough-looking plainclothes security man hopped in the car and demanded: "What's going on here?"

When he discovered that I was a foreign journalist, I was quickly excused with a "Welcome to Jordan." But the driver was told to come to headquarters the next day for questioning. The driver, a macho character who laughingly forced other cars out of his way, was terrified. As a Palestinian, he had plenty to fear from the police, mostly East Bank Jordanians who aren't always kind to their Palestinian brothers. I got him clear of trouble with a word to the government press office, but it was another reminder that in a crisis, appearances are doubly deceiving.

By Stanley Reed in Amman

SIMMONDS/SELECT/SABA

COVER STORY

HOW THE CRISIS IS SCUTTLING THE PEACE DIVIDEND

Uncle Sam is again playing global cop, but you won't hear the Pentagon or its suppliers complaining

A VIETNAM-ERA F-14 ON THE SARATOGA: CONVENTIONAL WEAPONRY HAS SUFFERED FROM THE INFATUATION WITH HIGH TECHNOLOGY

The questions were supposed to be different. As the cold war receded, Americans were supposed to be thinking about how to spend a "peace dividend." As a new colossus emerged in Europe, George Bush was supposed to be concentrating on shifting from military to economic competition. But such geopolitical abstractions may be the first casualties of the crisis in the Persian Gulf.

Washington's showdown with Saddam Hussein may take months to play out, perhaps longer. But whether or not hostilities erupt, Operation Desert Shield, the largest U.S. mobilization since Vietnam, has shattered many of the glib myths about the U.S. in a post-cold-war era. In the process, it may also write a new role for the U.S. military.

That couldn't be better news for Pentagon planners, who a few short weeks ago were pondering a bleak, relatively low-budget future in a suddenly peaceful world. Now, Washington has served notice that while internal problems may temporarily have driven the Soviet Union off the world stage, the U.S. intends to go on acting like a superpower. And the halting response to the crisis by West Germany and Japan shows that for all their economic clout, their inability to project force leaves them bit players in this power play.

While the allies palavered at a host of international meetings, President Bush has taken up the nation's traditional job as global cop. The U.S. has a "commitment to international order," the President told a Veterans of Foreign Wars convention in Baltimore on Aug. 20. "When that is imperiled," he added, America will "help our friends and protect our own interests and the peace and stability of countries around the globe."

By taking on an Iraq bristling with arms, Bush has fanned the flames of Arab nationalism, all but guaranteeing a prolonged U.S. military presence in the Mideast. And at home, the action has radically altered the terms of the budget debate, just about eliminating the near-term prospect for slashing defense outlays.

The deployment of thousands of troops and sailors to the gulf and the call-up on Aug. 22 of 46,000 reservists have brought the conflict home to every city and hamlet in the nation. Opinion polls show overwhelming support for Bush's early moves and a rising conviction that the standoff will turn into war.

FLAKPROOF BUDGET. With congressional elections looming, even the most liberal Democrats are abandoning their slash-the-Pentagon rhetoric. When lawmakers return from their August recess, guerrilla assaults on the defense budget will be off limits. A House Armed Services

mmittee plan to slash the Administra-
n's fiscal 1991 military-spending re-
est to $283 billion from $307 billion
w looks dead. "The crisis has put the
ıkes on the move to cut defense,"
/s panel Chairman Les Aspin (D-Wis.).
In the euphoria that followed the
ımbling of the Warsaw Pact, many in
ngress believed that the U. S. military
ıld contribute up to half of a hoped-
· $500 billion in deficit reduction over
e next five years. Now, budgeteers
ure they won't be able to skim more
ın $120 billion from defense over the
me period. But while there may be a
ɔad consensus for funding defense,
w arguments already are erupting
out just what sort of military the U. S.
eds for a radically changed, but still
ry dangerous, post-cold-war world.

While U. S. troops pack their bags for
udi Arabia, battalions of defense lob-
ists are gearing up to launch an as-
ult on Washington. Their objective:
e the Middle East situation to line
lawmakers behind their companies'
ojects. Supporters of Northrop Corp.'s
92 million-a-copy B-2 Stealth bomber
ɜt no time in promoting their plane
just the thing to sneak past Iraqi
defenses and bomb Baghdad. Bell
elicopter Textron Inc., struggling to
ve its V-22 Osprey vertical-takeoff-
d-landing transport, promoted the hy-
id aircraft as a boon to the mobility of
mbat troops.

It's a bit early to draw lessons from
war that has not been, and might
ver be, fought. But unlike the 40-year
andoff with the Soviet Union, where
terrence was achieved by long-range
ɔmbers and nuclear missiles, the kind
regional threat posed by Iraq puts
premium on speedy response with
ɔnventional ground, sea, and air
ɔrces—an area the Pentagon has long
eglected.

ENERABLE WARBIRDS. The heroes of
esert Shield may prove to be the pilots
ıat in two weeks ferried to the Middle
ast some 35,000 troops and 1 billion
ɔunds of cargo—the largest U. S. airlift
ver. But as a generation of aging C-5A
ıd C-141 transport planes strain under
ıeir load, a big winner from the crisis
ppears to be McDonnell Douglas
orp.'s new C-17 transport. The Air
orce had pushed for as many as 210
f the transports, at a total cost of
42 billion, to replace the 25-year-old
-141s. But Defense Secretary Richard
. Cheney already had cut that request
ɔ 120, and this year the Senate voted
o new production funds for the pro-
ram. Now, "there's no question the
-17 will be a priority," predicts Repre-
entative John P. Murtha (D-Pa.), chair-
ıan of the House defense appropria-
ions subcommittee.

Lockheed Corp. also stands to benefit from the new emphasis on regional fire-fighting. The massive Mideast airlift once again has demonstrated the utility of the contractor's venerable C-130 tactical transport and could generate new sales of the turboprop plane.

Bell's tilt-rotor Osprey, once on the Pentagon's weapons hit list, also may find new support. Its ability to take off like a helicopter and fly as fast as a plane would be well suited to support amphibious landings by the Marines. Similarly, the Army is looking to its role in the Middle East to boost its push for a new lightweight tank to replace the overweight M-1A. And the brass is pining for a new light helicopter that could provide close support for an infantry assault.

Hardware is only part of the equation. The Bush Administration's trickiest task in crafting a new role for the U. S. as Mideast peacemaker may be finding a way to base forces in the region permanently, either on its own or as leader of a multinational peace-keeping delegation. At one time, massive NATO deployments in Europe were deemed necessary for checking Soviet expansion. Now, the same kind of troop commitment may be required in the Mideast.

For the first time, Saudi Arabia has allowed the U. S. to deploy troops on its soil. And Pentagon chief Cheney followed that up by securing similar rights in neighboring Oman, the United Arab Emirates, and Qatar. But securing permanent bases will require delicate handling not only of Arab sensitivities but also of U. S. public opinion. Americans, who had been looking forward to the end of a half-century of footing the bill for defending Europe against the Soviets, now face major new costs to protect their own and their allies' oil supplies.

America might be prepared to provide the muscle, but Washington may well demand that Europeans and the Japanese pick up a large share of the cost. That may prove easier demanded than done. How the allies respond promises to have far-reaching consequences. "The behavior of Washington's allies in this crisis is going to serve as a code for Americans to define who their allies are," says Gregory Flynn, an East-West specialist at the Carnegie Endowment for International Peace.

CROSS-BORDER FORAYS. Citing restrictions in their post-World War II constitutions, Germany and Japan have at the moment limited their roles in the crisis largely to expressions of support. And for all the talk of a peace dividend, the U. S. still maintains a force of 342,000 in Europe. "Our troops are protecting West Germany from East Germany, and all the East Germans are in West Germany shopping at the malls," says Representative Patricia Schroeder (D-Colo.), a House Armed Services Committee member and a leading advocate of burden-sharing arrangements.

Such skepticism underscores the magnitude of the task facing Bush and his defense planners. And once the current crisis passes, the Administration still must define a U. S. military mission for the new world that it created with its bold plunge into the Middle East. That prospect could make George Bush, now trying to steer through the gravest moment of his Presidency, long for the return of cold-war predictability.

By Bill Javetski and Seth Payne, with Amy Borrus and Paula Dwyer, in Washington, Keith Hammonds in Boston, Eric Schine in Los Angeles, and bureau reports

■ **U.S. FORCES IN TRAINING: WILL THEY GET PERMANENT MIDEAST BASES?**

COVER STORY

CAN THE U.S. CONTEND WITH THE CRUNCH THIS FALL?

The embargo and colder weather could add up to $35-a-barrel oil

For the oil consumer, life is likely to get worse before it gets better. Saudi Arabia, Venezuela, and other big oil exporters say they will boost crude production, and President Bush has promised to "guarantee an adequate supply of petroleum." But many oil experts are convinced that the oil markets are headed for at least a few rough months.

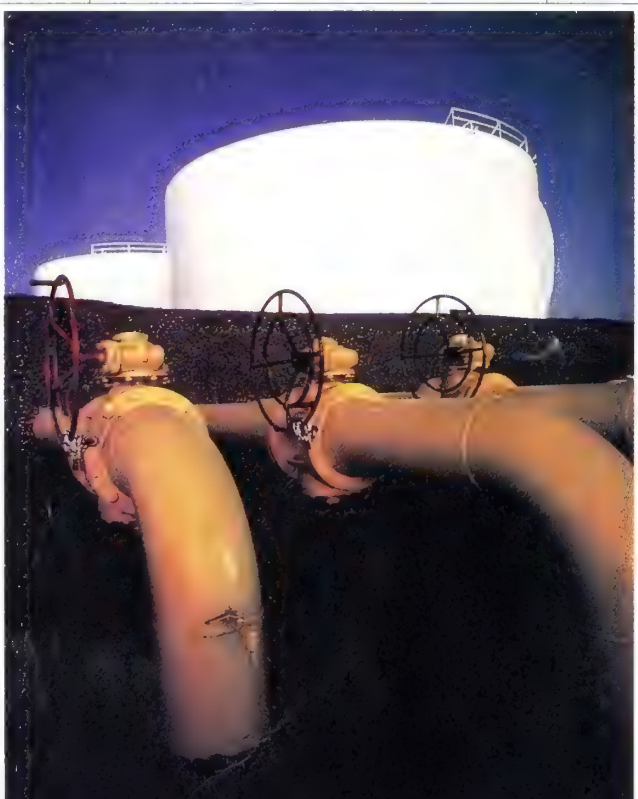
Now, oil companies are in the midst of building inventories for the northern hemisphere's heating season. During the winter, demand for crude oil normally rises by 2 million barrels per day, figures Gary N. Ross of the New York-based consultant Petroleum Industry Research Associates Inc. But the global trade embargo on Iraq and Kuwait promises to take up to 4 million barrels a day off the seas.

PRICE PRESSURE. Even though replacement crude from other OPEC states is on the way, much of it won't hit the market for a month or two. So in September, the Paris-based International Energy Agency estimates, the world is likely to be short at least 1.4 million—and perhaps as much as 3.2 million—barrels per day. That's a surefire prescription for $35 crude oil—and 20¢ more per gallon at retail for gasoline and heating oil—just as winter nears.

Indeed, oil futures have already risen close to $32 on the New York Mercantile Exchange as Saudi Arabia diverts fuel from its refineries to supply the Allied forces massing in the gulf. "Coming into the winter, you can't satisfy demand with the increased OPEC production," says Ross.

Nonetheless, the Energy Dept. says consumers shouldn't panic. In addition to the promised new shipments from OPEC, the department says conservation and additional U. S. production could together make up for the loss of 550,000 barrels per day.

By tapping the oil industry's near-record inventories, it contends, the remaining gap could easily be filled. But with little new crude immediately in sight, oil companies are hesitant to drain their tanks. On Aug. 17, says the American Petroleum Institute, U. S. refiners had 375.7 million barrels of crude on hand, about the same as the week before.



THE OIL COMPANIES ARE RELUCTANT TO DRAIN THEIR TANKS

Industry experts think the real crunch could hit around mid-September as the last Iraqi and Kuwaiti oil shipments loaded before the Aug. 1 trade embargo land in the U. S. The first trickle of new supplies probably won't start arriving until at least three weeks later, and U. S. intelligence estimates obtained by BUSINESS WEEK say it could take until mid-November for the Saudis to build up to the 1.6 million to 2 million extra barrels they have pledged to produce ever day. Other countries also will take tim to gear up.

How bad things will get depends a lo on whether the refiners finally decide t draw down their stocks. But no one see that happening. U. S. refineries are a ready running at 92.3% of capacity, leav ing little room to run more crud through the system.

RELUCTANT REFINERS. But even i enough spare refining capacity wer available, oil companies might continu to be reluctant to drain their inventorie as long as tensions persist. "The psy chology is that things are never so ba that they can't get worse," explain Thomas G. Burns, manager of econom ics for Chevron Corp. "So, it's ver hard to foresee the end of a crisis an thereby know how quickly you shoul use your stocks, or if you should us them at all."

Some oil executives are urg ing Bush to lend a hand b drawing down the govern ment's 590 million-barrel Stra tegic Petroleum Reserve—of ten called SPRO—to pump up t 3.5 million barrels a day int the system. "You need th SPRO to have some control ove prices," says Bob Benner, man ager of business analysis fo Oryx Energy Co., a Dallas based independent producer "The difference between hav ing and not having SPRO is may be $10 a barrel."

The 20 other IEA member also have large stockpiles. Bu none is opening the taps. "I the consumer operates reason ably, we shouldn't have a prob lem," says Deputy Energy Sec retary W. Henson Moore. Bu warfare in the Persian Gulf or an unusually cold winte that increases demand by several hundred thousand bar rels a day, might prompt Bush to open the government's stockpile.

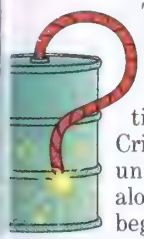
Others think the market could take care of things on its own—but the price might be a serious recession. "I don't think you can sustain oil prices over $30 a barrel for very long," says economist Adam E. Sieminski of Washington Analysis Corp. As winter turns to spring, demand and prices could plummet. But for now, consumers can only hope for a quick end to the gulf crisis—or a warm winter.

By Robert Buderi in New York, with John Rossant in Rome and Tim Smart in Washington

:OVER STORY

RISING TENSIONS OR NO, 'HE DOLLAR IS A DUD

ıce a safe haven for investors, it has become an also-ran



The dollar used to be the one currency that global investors would flock to in a crisis. Not this time. Despite the Gulf Crisis, the greenback has unswervingly continued along the steep decline it began last spring (table). 'eady at its lowest point in nearly two :ades, the U. S. currency may fall an ditional 10% or more by the time 1990 over, analysts say.

The drop in the dollar pre- ıts a nagging dilemma for : Federal Reserve Board d the Bush Administration a time when Washington is ated on the Iraqi crisis. easury Secretary Nicholas Brady would like to see deral Reserve Chairman an Greenspan reduce inter- : rates to rev up the flag- ıg U. S. economy. But with 'lation picking up speed en before Saddam Hus- in's invasion of Kuwait 'ked world oil prices up out 70%, any rate cut now obably would spook the ırket and send the dollar o an even sharper decline.

FICIT DRAG. Such a drop ıld make it harder than er to attract foreign capital finance a ballooning feder- budget deficit made even ırse by the cost of the U. S. peditionary force in the lf. But waiting too long to t rates could transform the rrent downturn into a deep :ession and make the deficit 'ger still. "There's no cheap ıy out," says Ulrich Cartel- ri, a member of Deutsche ınk's executive board.

Maybe not. But so far, many analysts ll expect Greenspan will eventualiy se rates gingerly, though not until ore data—September's employment re- rt, for example—confirm that a reces- ın has arrived. If that happens, the osely watched federal funds rate, the arge on overnight loans among banks, uld fall as much as a full percentage int, to 7%, by yearend.

But even if Greenspan doesn't budge, the dollar probably will continue to slide. One quick glance at any trader's computer screen tells you why: Nearly every other major currency now offers investors a better return.

Some temptations: Three-month Euromarket bank deposits denominated in rock-solid West German marks are yielding 8.37%, compared with 8.06% for the dollar. Short-term yields in Canada are around 13%, pushing the Canadian dollar to a 10-year high. Sharif Ghalib of Washington's International Institute of Finance notes that "absolutely unbelievable" amounts of Arab flight capital are flowing into Switzerland's banks, supercharging the Swiss franc. And even 90-day Japanese yen deposits, which last year were paying 5.40%, now sport returns comparable to those on the dollar.

"It was easy to make the 'dollar as safe haven' argument when U. S. rates were 2½ percentage points above German and Japanese rates," says Lloyd C. Atkinson, the Bank of Montreal Ltd.'s chief economist. But as European and Japanese rates rise and U. S. rates come down, investors now are opting for faster payoffs abroad. With the yen yielding more than 8%, says Steven H. Nagourney of Shearson Lehman Brothers Inc., the Japanese "are being paid very handsomely" for investing at home despite the risk of further cutoffs of Persian Gulf oil.

INFLATION JOLT. The Japanese payoff could grow even more handsome within weeks. Despite concerns that higher interest rates will inflict even more damage on Tokyo's bedeviled stock market (page 86), many Japanese analysts still expect the Bank of Japan to raise interest rates in September.

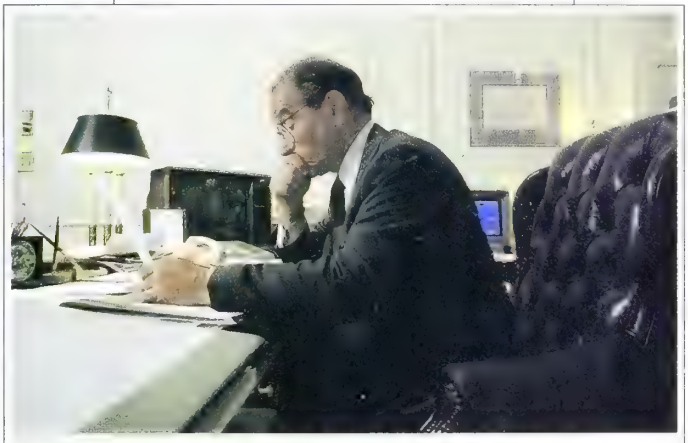
With Japanese gross national product growing by more than 4% and the country's money supply expanding at a 12% annual rate, the central bank is worried that rising wages and higher oil prices will produce an unwelcome inflation jolt. "We're not very happy," says one Bank of Japan official. As a result, the bank may increase its discount rate, now 5.25%, by as much as a point.

That, on top of U. S. economic woes, could push the dollar down to 142 yen, says Tetsuya Taura of Sumitomo Bank Ltd. And with the cost of unifying the two Germanys rising rapidly, the Bundesbank is likely to continue nudging German rates higher by as much as a point by fall. Bank of Montreal's Atkinson, for one, thinks that would push the dollar to a record low of 1.39 marks.

The dollar's fall isn't all bad news for the U. S. The greenback's average drop of nearly 9% since spring will boost the competitiveness of U. S. exports, just about the only thing the economy has going for it now. Rising interest rates overseas are lessening the cheap-capital advantage German and Japanese manufacturers long have had over those in the U. S. And the dollar isn't likely to repeat the 40% drop it recorded between 1985 and 1987.

In fact, after the current Middle East tensions ease, cheaper oil might even restore some of the dollar's lost luster. But no one is betting when that will happen.

By William Glasgall in New York, with Karen Lowry Miller in Tokyo, John Templeman in Bonn, and Howard Gleckman in Washington



GREENSPAN: A RATE CUT NOW MIGHT SPOOK THE MARKET

THE DOLLAR'S SWIFT FALL

	Units of foreign currency per U.S. dollar			Decline
	Apr. 1	Aug. 1	Aug. 22	since Apr. 1
BRITISH POUND*	1.64	1.86	1.92	14.7%
SWISS FRANC	1.50	1.35	1.28	14.7
WEST GERMAN MARK	1.70	1.59	1.56	8.2
JAPANESE YEN	158.65	146.40	146.35	7.8
CANADIAN DOLLAR	1.17	1.15	1.14	2.6
AVERAGE DECLINE**				8.8%

*Pound expressed in U.S. dollars **Dollar's average value against 10 major currencies

DATA: BRIDGE INFORMATION SYSTEMS INC

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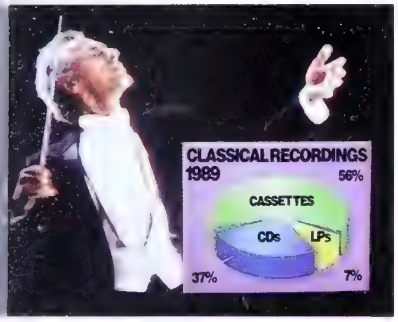

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HP'S PROMISES ARE STARTING TO SOUND HOLLOW

The company's shift to PCs and workstations still isn't paying off

Wall Street is quickly losing patience with computer giant Hewlett-Packard Co. The company won kudos three years ago when it acknowledged that personal computers and workstations would soon eclipse its flagship minicomputers and pledged to develop its own line of these machines. Thanks to that forthrightness, analysts stuck with the stock, while they dumped shares of other minicomputer makers. They even resigned themselves to a period of depressed earnings as HP made its shift to smaller systems.

But talk is cheap, and HP still has little to show for its efforts. On Aug. 16, the company reported a surprise 5% drop in profits for its third quarter ended July 31 (chart). The outlook for HP's full year, ending Oct. 31, isn't much better. San Francisco investment firm Hambrecht & Quist figures HP's profits will fall 7% from fiscal 1989, to $768 million, while revenues rise 10%, to $13.1 billion.

Now, with its stock trading at its lowest level since 1984, Wall Street wonders when, if ever, HP will realize its vision. "HP created a level of expectation that they haven't delivered on," says John C. McCarthy, an analyst at Forrester Research Inc. in Cambridge, Mass.

It seems that HP, hobbled by its customary caution and engineering orientation, just isn't selling the products that customers want. Take personal computers. After HP broadened its product line in 1986 to include a range of IBM-compatible PCs, sales took off, growing more than 35% in each of the past two years, to $650 million in 1989.

But in 1989, HP dropped its laptop line after a disagreement with the maker, Zenith Data Systems Corp. That left it with no presence in the fastest-growing PC segment. And HP's new emphasis on marketing powerful PCs to the high end of the market isn't working. A dearth of sophisticated software has made the PCs hard to sell. Compaq Computer and IBM, which already knocked HP out of the low end of the market by dominating dealer shelf space, are grabbing what high-end business there is. That means that this year, HP will post PC growth rates of 12%, analysts say. Worse, its share of the worldwide market is stagnant at 2%.

What's more, HP's PC unit has been plagued with management problems. The company in June lost its worldwide PC chief, Robert L. Puette, to Apple Computer Inc. HP replaced him on Aug. 16 with former European PC chief Jacques A. Clay, who has built HP's market share in E rope in the past three years to 4%—f better than its 1% share of the U. market. But HP's decision to accomm date Clay by relocating its PC headqua ters from Sunnyvale, in California's Si con Valley, to Grenoble, France, has lot of doubters. "With the U. S. laggin this won't help," says Robert G. He wick, a Hambrecht & Quist analyst.

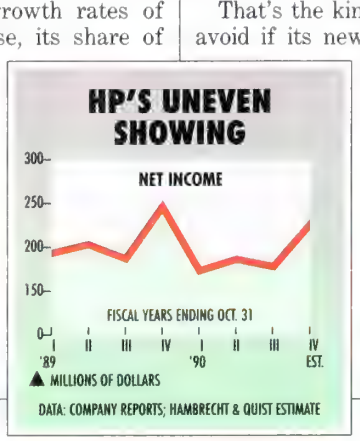
HP's strategic execution in workst tions isn't any better. To bolster its ro in this key market, HP last year pa $500 million for workstation pione Apollo Computer Inc. The uncharacteri tically bold move was supposed to ste the rapid rise of Sun Microsystems In But so far, it has flopped: HP-Apollo combined 31% share of the workstatic market, which topped Sun's share initia ly, last year fell to 26%, just b hind Sun.

HOT ITEM. That's because HP can seem to move its latest workst tions out the door. In June, it a nounced a combined HP-Apoll workstation based on Motoro Inc.'s newest microprocessor. Bu the chip is late, sending potenti HP customers to Sun. And H won't begin marketing a ne workstation, which uses a hot ne microprocessor design called r duced instruction set computin (RISC), until late 1990. Nor does H have software with the ability t run on all these workstations. An those programs could take yea to finish.

HP's problems could be wors This year, it has reduced expens by cutting some 3,000 employee mostly by attrition. Moreover, i laser printers are winners: La year, their sales grew 30%, to $1.4 bi lion, giving HP 70% of the market. Bu once again, poor execution stymied HP performance: The company says it coul have sold at least $50 million more i laser printers than it could produce i the third quarter. That would have ad ed 6¢ a share to the bottom line, bu those sales are now lost, HP says.

That's the kind of slipup that HP mus avoid if its new strategy is to succee "Agility is what it's a about, and we're n where we need to be, concedes HP Presider John A. Young. Bu however admirable tha sort of straight tal may be, it isn't enoug to keep Wall Street ha py any longer.

By Robert D. Hof i San Francisco, and b reau reports



IMAGES THAT MEAN BUSINESS FROM KODAK

TAKEOVERS

AMBASE SHAREHOLDERS ARE USED TO DISAPPOINTMENTS. BUT THIS . . .

Management reneges on a dividend to pay unexpected debt

Shareholders never like bad news, but the one-two punch that AmBase investors took on Aug. 14 knocked them to the canvas. The financial-services company posted a $106 million second-quarter loss. But more disturbing was that AmBase Corp. told investors it couldn't pay a special dividend that it had promised from the sale of its Home Insurance Co. to Vik Brothers International, a European investor group. Why not? The company said it would have to use the proceeds from the deal to pay off a debt load that was much bigger than investors suspected. AmBase's stock nose-dived (charts).

Within a day of the announcement, investors rushed to sue AmBase, its directors, and its auditors, KPMG Peat Marwick, to stop the sale or seek damages for alleged securities fraud. Investors charge that company officials propped up the stock by concealing the company's dire finances. "We're shocked, and we're mad," says Robert Lange, senior vice-president of the Lindner Fund, a major shareholder. "We were promised a good deal." AmBase didn't return calls seeking comment, and a spokesman for Peat Marwick says the accounting firm has not received copies of the suits.

Nor, by any means, is the sale of Home a done deal. Insurance regulators in eight states plus Bermuda must approve it first. So must the shareholders, who claim they know little about Vik or the sources of its financing. "The transaction to me looks very peculiar," says I. Walton Bader, a lawyer who is preparing the suit for Lindner and others.

ODD CHOICE. One glaring reason: the AmBase board's decision to go with Vik's $905 million price, while rejecting what appears to be a more lucrative deal. AmBase recently turned down a $955 million bid from Sequoia Associates, a Menlo Park (Calif.) investment firm. The bid was big enough to yield a dividend for shareholders, says Sequoia general partner William D. Walsh. An AmBase spokesman says "there were too many contingencies" that made the Sequoia bid unworkable. Home CEO James J. Meenaghan insists that Vik's "was the best bid."

AmBase may have had to settle for less money because it's under pressure from bankers to reach a final agreement for Home by Sept. 28. The company is already in default on loan covenants, and a sale will give AmBase credibility with its lenders to avoid penalties.

In a way, AmBase's reneging on its promised dividend shouldn't be much of a surprise. AmBase has a history of disappointing shareholders. In 1985, the company had been on the block for a year before Chairman George T. Scharffenberger spun it off to shareholders of City Investing, a conglomerate he headed. Scharffenberger then tapped Marshall Manley, his personal lawyer, to help liquidate City. The liquidation left shareholders irate, with less value than they had expected. Manley stayed on to run AmBase and Home, its prime asset.

Manley envisioned AmBase as a financial supermarket. In the late 1980s, he spent $414 million for brokerage firm Gruntal Financial Corp. and the New Jersey-based thrift Carteret Bancorp. He paid peak prices for both, and they have produced only meager profits. Manley also bought high-yield bonds that the company now blames for its investment losses. Starved for cash, AmBase put Home up for sale in February, promising investors a special payout.

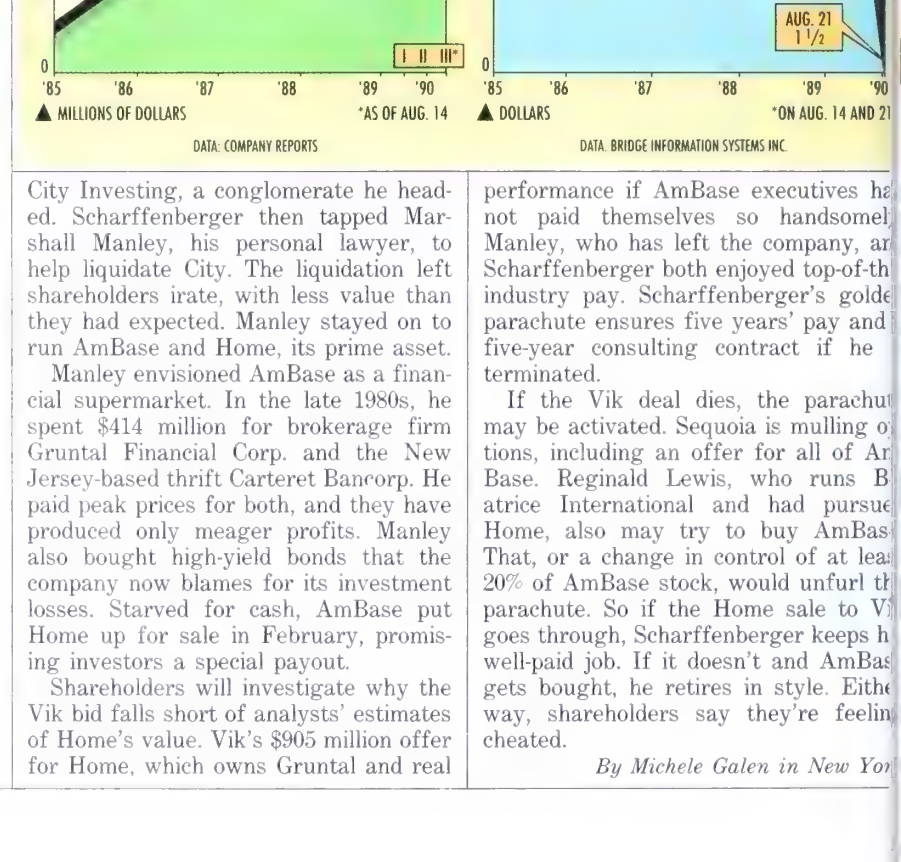
Shareholders will investigate why the Vik bid falls short of analysts' estimates of Home's value. Vik's $905 million offer for Home, which owns Gruntal and real estate developer Sterling Forest Corp., includes $620 million in cash and the assumption of $76 million of corporate debt. It also leaves in place $285 million in Home preferred stock, $124 million of which AmBase plans to sell in a private placement. The $620 million is below Wall Street's $800 million estimate.

Moreover, shareholders are shocked at AmBase's estimated $730 million debt load. In its second-quarter earnings report, AmBase listed corporate liabilities at $570 million, with the additional borrowings buried in footnotes. The company says analysts could have figured out the total debt if they had looked more closely. But one AmBase insider concedes that the numbers "really weren't as publicized as they ought to be."

Investors say they wouldn't be as angry as they are at the company's poor performance if AmBase executives had not paid themselves so handsomely. Manley, who has left the company, and Scharffenberger both enjoyed top-of-the-industry pay. Scharffenberger's golden parachute ensures five years' pay and a five-year consulting contract if he is terminated.

If the Vik deal dies, the parachute may be activated. Sequoia is mulling options, including an offer for all of AmBase. Reginald Lewis, who runs Beatrice International and had pursued Home, also may try to buy AmBase. That, or a change in control of at least 20% of AmBase stock, would unfurl the parachute. So if the Home sale to Vik goes through, Scharffenberger keeps his well-paid job. If it doesn't and AmBase gets bought, he retires in style. Either way, shareholders say they're feeling cheated.

By Michele Galen in New York



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INVESTIGATIONS

100,000 FUNDAMERICA CUSTOMERS COULDN'T BE WRONG, COULD THEY?

Investigators say the company was a mammoth pyramid scheme

It seemed just too good to pass up. For a mere $140, membership in a special buying club entitled you to discounts of up to 20% on everything from flowers and sporting goods to long-distance phone calls. You could even get a break on a mortgage. And by early 1990, less than four years after FundAmerica Inc. first appeared, nearly 100,000 people in eight states had bought into the idea. But for many, more alluring than the discounts was FundAmerica's promise that members could earn nearly $100,000 a year by simply selling new memberships to friends and neighbors.

EDWARDS: SKELETONS IN THE CLOSET

Now, government investigators in at least four states are calling FundAmerica one of the biggest pyramid schemes in recent memory. And what most intrigues them is that its founder may have spirited more than $11 million into bank accounts in the Netherlands and Hong Kong (table).

FundAmerica's fortunes began to unravel on July 19, when the Florida state prosecutor ordered the company to stop doing business there and to repay members more than $8 million. On July 26, a federal judge in San Francisco ordered the Irvine (Calif.) company to halt operations. Then, on Aug. 6, California Attorney General John Van de Kamp lent his support to a class action filed on behalf of FundAmerica members. It seeks $150 million in damages. By Aug. 17, FundAmerica had filed for Chapter 11 bankruptcy protection.

Just who is Mr. FundAmerica? One Robert T. Edwards. Investigators describe him as a 49-year-old Canadian who set up almost identical clubs in Canada, Britain, and Australia. Each of those, they say, eventually met with trouble, too. As early as 1973, Edwards was charged with operating a pyramid scheme in Canada, according to Florida's assistant statewide prosecutor, Marty E. Moore. The case eventually was dropped. A year later, though, Britain tried to extradite Edwards from Canada to face charges of operating a similar scheme in England. Edwards fled to Australia, investigators say, where he started yet another club.

There, from 1981 to 1986, he operated something called Trump Card International. But after Australia's commissioner for consumer affairs issued a warning about doing business with him, Edwards is suspected of wiring more than $1 million to a bank in Hawaii and quickly fleeing the country. Australian authorities still want to talk to him. "He's one of the bigger ones we've seen of this type," Norman Prentice, a consumer affairs spokesman, told BUSINESS WEEK. "But when he doesn't want to be found, he's pretty good at it."

Arrested on July 19, Edwards is now free on $1 million bail as he awaits trial on securities-fraud charges in Florida. He faces up to 65 years in prison and $35,000 in fines. Edwards isn't talking but has denied the allegations. "FundAmerica was an honest company, and Robert Edwards was an honest businessman," says Neal R. Sonnett, Edwards' Miami lawyer. "Bob Edwards has not looted the company." Sonnett adds that his client's scrapes with the law overseas are "totally irrelevant."

'LOT OF SENSE.' The scheme Edwards is charged with in Florida is based on an idea so appealing that even the likes of conservative economist Arthur Laffer were drawn to it. Offering to deliver a huge pool of customers, FundAmerica lined up such blue-chip companies as MCI Communications Corp. and Citicorp to provide discounts to members. To get the discounts, all a member had to do was pay a $140 initiation fee plus a $100 annual renewal fee. Laffer liked the idea so much he even appeared in a promotional videotape for the company and agreed to serve on its board. "The product line made a lot of sense," he says.

There were just two problems. First, most of the promised savings didn't amount to much. For instance, if a member couldn't build up more than $250 a year in discounts, any discounts would revert to FundAmerica. And many of the discounts turned out to be scarce.

The much bigger problem, investigators claim, was that FundAmerica was more interested in selling memberships than services. Clients were encouraged to become sales representatives. Those who bought a "wholesale" block of 40 mem-

HOW GOVERNMENT INVESTIGATORS PORTRAY FUNDAMERICA'S OPERATIONS

1 Robert Edwards starts FundAmerica in 1986 after dodging various lawsuits and arrest warrants in Canada, England, and Australia. Signs agreement with MCI, a travel agency, and various retailers for bulk discounts to FundAmerica members

2 Edwards recruits members in eight states, encouraging prospects to pay $3,200 to become FundAmerica "directors," thus giving them the right to sign up others. Claims investment guru Howard Ruff among its members and puts economist Arthur Laffer on the FundAmerica board

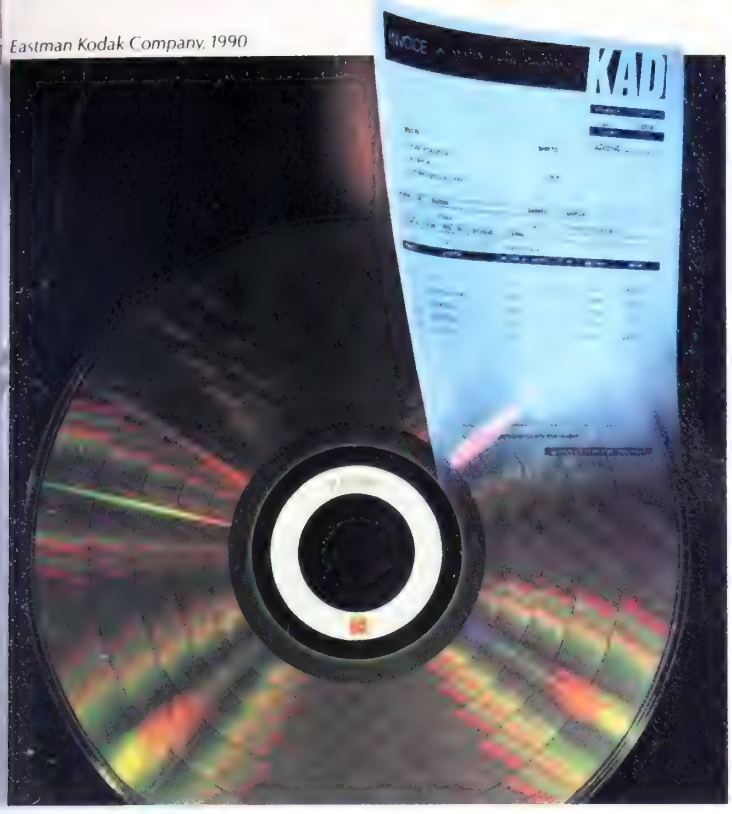
3 Directors buy 40 memberships "wholesale" at $80, then attempt to resell them at $100 each. Members get commissions ranging from 5% to 20% for each new recruit; the rest goes back to FundAmerica. Company signs up about 100,000 members, who in turn hold an inventory of some 800,000 memberships

4 FundAmerica officers pay themselves huge salaries, including $1 million a month for Edwards over the past five months

5 At least $11.5 million more is wired overseas to two companies in the West Indies and the Netherlands

DATA COURT DOCUMENTS, COMPANY DOCUMENTS

Eastman Kodak Company, 1990



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berships for $3,200 got the title of director. By selling memberships at a higher "retail" price to friends, directors were promised a 40% profit. And those directors would be entitled to a slice of the money paid by any new members that his clients were able to sign up. At recruitment seminars, FundAmerica trotted out directors who were said to clear $30,000 a month.

But few were so lucky. By the time the authorities moved in, 100,000 members were holding some 800,000 surplus memberships. How was Edwards able to attract so much business? "He was extremely convincing," says Laffer, who is also a defendant in the California suit.

After his arrest, Edwards stepped down as chief executive. The FundAmerica board brought in Howard J. Ruff, a high-profile financial newsletter publisher, to clean up the mess. Ruff lasted exactly one week. He says he was fired after disclosing publicly his contention that Edwards had paid himself $5.5 million this year and had wired $11.3 million overseas. Just the same, Ruff says, "to call the company a scam is simply not so. The big problem with Edwards is that he created a fictitious biography and had skeletons in his past that were not only not disclosed but were deliberately obscured."

FundAmerica's new president, Mitchell G. Blumberg, a Houston businessman who led the program in Texas, says: "We intend to remain in business." He notes the bankruptcy court has given the company $600,000 to run until Sept. 21. As for Edwards, he's set to appear shortly before an Orlando judge. Prosecutors hope the judge will boost his bail. And companies that worked with him? They're muddy. While Best Products Inc., the Richmond (Va.) retailer, had given FundAmerica termination notice on July 11, "we're obviously very upset," says Best corporate counsel Michelle H. Gluck. "This takes our name down with FundAmerica."

As for FundAmerica members, they're unlikely to see their money again. Take Russell Roush, of Brandon, Fla., who invested $3,200. Roush keeps his FundAmerica coupons in a garbage bag.

By Eric Schine in Los Angeles and Gail DeGeorge in Miami

FundAmerica's founder may have spirited more than $11 million to accounts in the Netherlands and Hong Kong

THE ARMS TRADE

SUNNY SOUTH FLORIDA: WHERE THE GUNS ARE

Loose laws have helped turn the state into a marketplace for illegal arm

WEAPONS DEALERS TRAFFIC IN EVERYTHING FROM PISTOLS TO ROCKET LAUNCHERS

South Florida is half a world away from Iraq. Yet when that country sought weaponry in 1983, it was a Miami-based arms merchant who allegedly set up a deal. Now, arms broker Sarkis G. Soghanalian faces trial in U. S. District Court in Miami on Aug. 27 on charges of violating the munitions-export law. The accusation: Soghanalian shipped rocket launchers to Iraq without State Dept. approval. Attorneys for Soghanalian say he is innocent. In court documents, they admit one rocket launcher did mistakenly wind up in Iraq but was reshipped to Switzerland.

This is not the only international arms affair in Florida. Last January, a suspected Irish Republican Army member and three other men were arrested by undercover agents from the Federal Bureau of Investigation and Customs when they allegedly tried to buy a Stinger missile. Police charge that the missile, earmarked for Northern Ireland, was intended for use against British troops. The trial is set to begin in November.

In the past year, federal and local officials seized dozens of small-arms shipments destined for other areas of the U. S. and Latin America. The cases aren't related but are evidence that Florida has become a clearinghouse for illegal arms sales. "South Florida is a mecca for this," says William P. Rosenblatt, the U. S. Customs Service special agent overseeing operations there. "There's plenty of money and plenty of guns."

Rocket launchers and Stinger missiles aren't a typical offering. The most common smuggled items are semiautomatic pistols and rifles—lethal weapons just the same. No one knows how many arms leave Florida every year. But thousands captured by authorities are dumped in the ocean annually. Their geographical reach is impressive: The Alcohol, Tobacco & Firearms Bureau traced back to Florida gun shops the weapons that were used to assassinate two Colombian presidential candidates.

DRUG LINK. Florida was also the point of origin for 36 of 90 weapons seized in Colombian crime busts last year. Another ATF trace on 842 guns linked to Jamaican drug "posses" from 1985 to 1988 found that 42% of the guns were bought in Florida. The state may also be the arms market of choice for insurgents in the Caribbean. "I'm willing to bet that a large quantity of the guns used in Trinidad will be traced back to Florida," says one federal law-enforcement official, referring to the recent failed attempt to topple the government of Trinidad and Tobago.

Florida has emerged as a gun marketplace because of the close link between guns and drugs. The state's relatively

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lax gun laws don't hurt either: Buyers need little more than a state driver's license to purchase a semiautomatic gun. Such weapons retail for less than $500 in local shops but fetch twice that in the black markets of Latin America and the northeast U. S. Semiautomatic weapons converted to machine guns fetch four times the retail price.

Embarrassment over the arms flow is providing fodder for proponents of state gun controls. A November ballot initiative would impose a three-day wait on gun purchases. Advocates claim the waiting period, together with background checks that will be required next year, will reduce illegal sales. But opponents note that plenty of weapons are also shipped out of California and Texas.

From a global perspective, the state's gun trade is a pittance compared wit exports from China, Israel, and othe nations. "To buy a gun, all the crimina have to do is find somebody in the blac market," fumes Carlos Garcia, presider of Miami-based Intratec USA, whic makes the TEC-9 semiautomatic gu But in Florida, they don't have to d even that much.

By Antonio N. Fins in Mian

BUYOUTS

FOSTER GRANT RUNS FOR THE SHADE OF CHAPTER 11

It has gotten burned by cheap Asian rivals and an overload of debt

Who's that behind those Foster Grants? It's Gerhard R. Andlinger. Most likely, though, he'd rather be someplace else.

Foster Grant Corp., whose long-running "Who's that?" advertising helped create a powerful franchise in sunglasses, filed for Chapter 11 bankruptcy protection on Aug. 16. The 71-year-old company's failure is yet another example of the perils of debt, especially when coupled with the competitive threat posed by low-priced Asian imports—in this case, a flood of $3 shades from Taiwan and China. It's also a rare setback for Andlinger's very private Andlinger & Co.

Andlinger's investment firm, a collective of former ITT Corp. executives, bought the Leominster (Mass.) company in 1986. Then, Foster Grant's sales and market share were declining—at a time when sales of sunglasses in general were booming. "We think the company has been a sleeper," Andlinger said after the leveraged buyout.

Unfortunately for him, it's still snoozing. Sales dropped to $50 million last year, from $60 million in 1985, producing losses this year and last. By May, employment stood at 500, down from 1,000 when Andlinger took over.

TAIWAN PLASTIC. The reason: cheap Asian glasses. More than 250 million pairs of imported glasses poured into the U. S. last year, three times the level in 1982. Most came from Taiwan, where manufacturers churn out low-quality plastic shades priced under $5. In the past year, too, say industry executives, such restaurant chains as McDonald's and Pizza Hut, as well as manufacturers including Polaroid Corp., have launched sunglasses promotions, putting even more pressure on prices.

"WHO'S THAT?" ADS WERE CUT AFTER THE 1986 BUYOUT

Other U. S. producers, including Bausch & Lomb Inc. and Corning Inc., weathered the deluge by sticking to the high end of the market. Sales of Bausch & Lomb's Ray Ban brand, priced a about $50, have grown by 25% to 30% i each of the past five years, reckons Ki der, Peabody & Co. analyst Ruth Alon

> Foster Grant is one of the few missteps made by investor Gerhard Andlinger

Andlinger recognized the advantage but never went through with plans t move Foster Grant upmarket. And labo costs at its Mexican manufacturing ope ations were far higher than those of r vals who produced offshore. As a resul the company "was very exposed to im ports," says Richard Enholm, a forme vice-president who now heads Royal Op tical Co., a competitor.

Foster Grant was constrained, seems, by the heavy debt Andlinger ha imposed on it with the buyout. And linger was traveling and couldn't b reached for comment. But the compa ny's bankruptcy petition lists total debt of $43 million—including a $20 millio loan from Bank of New York an $14 million in notes held by Andlinge investors, according to the company' outside counsel.

TOO DOWNSCALE. That load, say industr sources, forced Foster Grant to cut of its successful advertising and promo tions and precluded the move upscale "We're all wrestling with these prob lems," says Ed Bonneau, president o rival Bonneau Co. "But if I had the deb on my company that they have on theirs I wouldn't be making any money."

Foster Grant is one of Andlinger' few missteps. The Austrian-born inves tor started his company in 1976, afte several high-level stints at ITT. He as sembled a team of ITT veterans, the sought out undervalued businesses t buy and run. Typically, the purchase were old-line companies in trouble "They've historically looked for cats an dogs," says Robert K. McNamara, vice-president at Salomon Brothers Inc who once identified potential targets fo the group. "They roll up their sleeve and fix operations."

That has won Andlinger some big pay outs. He made about $57 million in 198 when he publicly sold his shares in An tec Image Technology Corp., a manufac turer of photographic paper. He tool home another bundle last year from th sale of CNC Chemicals. This time, h wound up in the shade.

By Keith H. Hammonds in Bosto

Eastman Kodak Company, 1989

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EDITED BY SUSAN GARLAND

INTERCO COBBLES A RESTRUCTURING

▶ Furniture and shoemaker Interco may be close to a deal to restructure $1.9 billion in debt it amassed while fending off raiders in 1988. On Aug. 20, the St. Louis-based company, which makes Broyhill furniture and Florsheim shoes, announced plans to ask bondholders to swap their junk bonds for 95% of the company's common stock. The pact, which must be approved by creditors, also will give bondholders the right to name the board of directors.

The deal, considered a victory for bondholders, contrasts sharply with Interco's original offer of an 81% stake and no control over the board's membership. Under the latest plan, Interco's bankers have agreed to stretch out repayment of $800 million in bank debt.

MORE CUTBACKS AT NATIONAL SEMI

▶ National Semiconductor's acquisition of Fairchild Semiconductor in 1987 still shows no sign of paying off. On Aug. 21, National, based in Santa Clara, Calif., said it would lay off 2,000 people and close two factories, resulting in a $140 million write-off for the first quarter, ending Aug. 26. That's but the latest in a string of employee and plant cutbacks since the chipmaker was acquired. Robertson Stephens' analysts estimate that the company lost $165 million this quarter and predicts that the current round of layoffs won't be enough.

SPEEDING UP MCI'S TIMETABLE

▶ Wall Street was surprised on Aug. 21, when MCI Communications announced that it was "highly likely" to take a $500 million to $550 million write-down in the quarter ending Sept. 30. MCI said it plans to make its network fully digital by the end of 1991, and that will mean scrapping telephone switches and transmission equipment that cannot handle digital computer language. Originally, the network was not scheduled to go completely digital until 1993.

Helping speed up the conversion was MCI's recent $1.25 billion purchase of Atlanta-based Telecom USA Inc., which boasts 3,000 miles of fiber-optic lines. Investors were caught off guard by the news, and MCI's stock dropped 1⅛, to 33⅝.

WHO WILL GIVE CETUS A SHOT IN THE ARM?

▶ Cetus will again seek approval from the Food & Drug Administration to market its flagship anticancer drug, interleukin-2. But the six months or more it will take before it's ready to try again will likely drain the Emeryville (Calif.) biotechnology company's cash. Already, it's planning layoffs and says it's looking for "strategic alliances" that will give it a financial infusion.

Cetus' woes began on July 30, when an FDA advisory panel said it needed more safety data. On Aug. 15, Chief Executive Robert A. Fildes resigned, and the board returned the CEO mantle to founder Ronald E. Cape. The stock, which had been trading as high as 22½ before the FDA decision, closed at 7⅛ on Aug. 22.

GET THESE WASPS A HOTEL ROOM

Pity the poor folks at NASA. First, their Hubble telescope turned out to be nearsighted. Then, the Magellan space probe stopped calling home. Now, another problem is bugging the space agency. Literally. Swarms of amorous wasps have decided that the tops of the launch pads at the Kennedy Space Center provide the perfect conjugal bed. NASA officials claim the liaisons endanger workers and sensitive launch equipment.

The agency, getting waspish about it all, has called in th insect vice squad from the Agriculture Dept., which has com up with a solution. Male and female wasps attract each othe by releasing sexually arousing scents called pheromones. Th federal wasp-busters plan to use the scents as bait. This go ernment sting operation may begin in the fall, when the lov besotted wasps return to Florida for their annual sojourn. Tal about unrequited love.

WANG GETS A BREAK FROM STATE

▶ Wang Laboratories, swimming in red ink, is getting a big boost from the feds. On Aug. 21, the minicomputer company announced that the State Dept. had awarded it the largest contract in Wang's history. Under the five-year, $841 million award, Wang will supply State with personal computers, software, and other equipmen

The deal alone won't r verse Wang's string of larg losses. The company lost $71 million in the year ended Jun 30, as sales fell 14%, to $2. billion. But it does offer som evidence that Wang Chairma Richard Miller's turnaroun plans are starting to tak root. In the year since his a rival, Miller has eliminate most of the company's $57 million bank debt and axe nearly 6,000 employees.

USAIR: STILL LIGHTENING THE LOAD

▶ The turbulence continues a USAir. After losing $113 mi lion in the first half of th year, the carrier is scalin back operations because o higher fuel prices and slug gish passenger traffic. Th carrier has also been plague by continuing problems i bringing off its merger wit Piedmont. USAir says it wi lay off 1,500 employees, or 3 of its work force, includin managers, flight attendant and customer service agents

In recent months, the carr er furloughed 211 pilots, de layed orders for 12 Boein jets, and halted route expar sion plans. More cutbacks ar likely.

EDITED BY STEPHEN H. WILDSTROM

HE FOREIGN POLICY PRESIDENT UGHT TO COACH THE DOMESTIC ONE

eorge Bush, power golfer, is awesome off the tee. Put a fairway before him and stand back. But his short game? Forget it. On a recent round at Maine's Cape ndel Country Club, he should have birdied the ninth hole. he flubbed a short iron shot and three-putted for a bogie. ush the President, like Bush the golfer, often seems like men in one body. There's the "foreign policy" President, sively handling a crisis, using his carefully cultivated rela-ships with world leaders to build unprecedented allied re-e against an aggressor. Then there's the man with the 20-dicap domestic policy. His decisiveness olves when it comes to key economic and al issues.

ake the budget. For almost 20 months, the sident has dithered while the deficit has ex-led. Now he's bogged down in an endless mit with congressional leaders that has gged on since May. And he's still ensnarled he no-new-taxes issue. Although he has ed away from his pledge, the President has sed to get behind any specific revenue in-ses until wary Democrats show their hand.

KEY-BASHING. The Middle East crisis offered t may have been Bush's best chance to put budget mess behind him. He could have d the costs of the Iraqi operation as a justifi-on for a significant energy tax increase, and gress, in its current rally-'round-the-President mood, would e complied. Instead, on Aug. 20, in the midst of preparing nation for the possibility of war, Bush took time out to h Democrats for backing big cuts in Pentagon spending. n his audience—the Veterans of Foreign Wars, at their ual convention in Baltimore—seemed puzzled. Watching sh's budget assault, a former Reagan White House official ed: "It's all so inappropriate, so ill-timed."

ush is also reluctant to lead in other areas of domestic cy. To avoid a controversy over abortion rights, he nomi-ed David H. Souter, an obscure New Hampshire judge with no known views on any of the major issues likely to come before the court. Souter will likely be confirmed. But Bush may have missed an opportunity to put a clear stamp on the high court.

Another flub: The Administration has let the first real chance in years for serious campaign-finance reform slip away. With the public disgusted over the savings and loan scandal, Bush had a golden opportunity to force embarrassed lawmakers into accepting real reform. Instead, without White House leadership, the issue turned into a partisan squabble. Capitol Hill Democrats produced a bill that serves their interests. Bush will veto it, and the thoroughly corrupt campaign-finance system will stay unchecked. "This President likes the international job, not the domestic job," says political scientist Stephen Hess of the Brookings Institution. "On the international stage, he is well prepared. He's decisive. He acts. On the domestic stage, he doesn't stand for much."

ADDRESSING THE VFW

In many ways, the Bush Presidency is starting to resemble Richard Nixon's. Not that Bush, who is as secure as Nixon was paranoid, is heading for disgrace. But, as with Nixon, Bush's fondness for the world stage far eclipses his willingness to engage Congress over domestic policy. "There is a maladroitness with Bush in the domestic area," says former Carter White House domestic adviser Stuart E. Eizenstat. "He doesn't have a clear guiding star, like Ronald Reagan or Lyndon Johnson."

For now, Bush can take pride in his performance in the storm of the Iraqi crisis. But for all his foreign policy expertise and grace under fire, Bush should remember that Americans ultimately judge their President on domestic performance. The short game often can be more important than booming drives off the tees. Ask any golfer.

By Douglas Harbrecht in Kennebunkport, Me., and Howard Gleckman

PITAL WRAPUP

IFORCEMENT

he Federal Communications Commission isn't an agency that generly strikes fear into the hearts of busiess. But the FCC has suddenly been ting like an enforcement tiger. One ssible reason for the new stance: airman Alfred C. Sikes is eager to nvince Congress that the commission aggressive enough to regain the auority over telephone companies that lost to a federal judge in 1984.

One recent burst of enforcement acvity is likely to prove particularly ratifying to lawmakers. In July, FCC eld agents raided 30 radio and televion stations, looking for evidence that they had violated rules requiring that political ads be charged at the lowest available rates. "It was like the Gestapo had arrived," complains James Gabbert, president of KOFY-TV in San Francisco, one of the targets of the sweep.

Broadcasters aren't the only businesses feeling the heat. The commission recently hit NYNEX Corp. with a huge $35 million fine for deceptive accounting practices. And it has launched a crackdown on overcharges by alternative operator services, which provide long-distance connections for hotel guests and pay phones. Sikes denies any political agenda but admits that the FCC is taking a more "proactive" approach to enforcement.

MIDEAST FALLOUT

espite broad support for U.S. intervention in the Middle East, candidates are doing their best to turn the Iraq crisis into a campaign issue. Representative Denny Smith (R-Ore.) exploits Democrat Mike Kopetski's offhand expression of doubts about military intervention in Iraq. Representative John P. Murtha (D-Pa.), who nearly lost a primary, plans to visit the troops in September. But Texas Republican state Representative Hugh D. Shine may have to put his bid for an open congressional seat on hold. Shine, an Air National Guard pilot, expects to be called to active duty.

STEINKAMP

JAPAN

TOKYO'S TOWERS BY NIGHT: A POWERFUL OPTIMISM

HOW GLOBAL EXECUTIVES SEE JAPAN'S POWER

An exclusive poll in Europe, Japan, and the U.S. comes up with some surprising answers

Iraq's treachery in the Persian Gulf has allied the world's economic powers against a common enemy in a way that hasn't been seen since the oil shocks of the 1970s. But beyond the immediate unity of crisis, concerns and misperceptions about the growing stature and influence of Japan as an economic superpower are steadily growing. As the former communist-capitalist divisions give way to new regional struggles, the U.S., Europe, and Japan have widely different views of Japan's ability to prosper and dominate.

These critical differences are highlighted in a new BUSINESS WEEK/NHK/Harris Poll, taken during July, that for the first time sampled executive attitudes simultaneously across three continents. The special survey was designed jointly with Japan's public-television corporation, Nippon Hoso Kyokai, and U.S. pollster Louis Harris & Associates. It asked 590 American, European, and Japanese business leaders to comment on the popularly held view that Japan is destined to become the world's leading economic superpower by the end of the century.

DOMINANT. Only 18% of Americans and 23% of Japanese polled said they believe Japan will reach that position, although more than half of Japan's leaders think they will increase their share of the world market at the expense of their industrial rivals. But 30% of Europeans expect Japan to reign as the No. 1 economic power by the end of the centur and a startling 50% believe Japan ha already won the global economic race.

Europeans, who until recently had fa less economic interaction with the Jap nese than Americans, are now facing a onslaught of Japanese goods, from luxu ry cars such as the Lexus to digital-tap players. They are also acutely aware o the beating U.S. industry has take from Japan's exports, and Europe has profound respect for Japan's ability t turn out high-quality, affordable pro ucts quickly.

This concern about Japanese dom nance has touched off a heated debat about how to manage trade betwee

APAN ISN'T KING OF THE HILL . . .YET

Do you think Japan is the No. 1 economic power in the world today, or not?

	U.S.	Europe	Japan
No. 1 economic power	28%	50%	13%
n't No. 1 economic power	72%	46%	84%
lot sure	0%	4%	3%

WHERE'S THE EDGE . . .

Which of the following will be the most important factors in elping Japan's economic growth in the 1990s?

	U.S.	Europe	Japan
echnological capability	24%	49%	91%
he government's industrial policy	49%	27%	10%
lighly skilled labor force	20%	20%	16%
apanese management, which includes quality control, labor-anagement harmony, and cooperation within groups of companies	32%	46%	20%
lew markets in Eastern Europe and ne Soviet Union	28%	26%	19%
lot sure	2%	1%	0%

. . AND WHERE'S THE ACHILLES' HEEL?

Which of the following will be the most important factors in olding back Japan's economic growth in the 1990s?

	U.S.	Europe	Japan
hortage of labor and the aging of he labor force	21%	23%	72%
mergence of American and uropean protectionist trading locs	27%	41%	43%
ncreasing global criticism of apan's unwillingness to open ts own markets	40%	30%	9%
A sudden crash in Japan's soaring tock and real estate prices	14%	10%	10%
ncreased competition from newly ndustrializing countries of Asia	41%	40%	9%
Not sure	3%	3%	0%

APANESE VIEW THE FUTURE WITH OPTIMISM . . .

In 10 years, do you think Japan's share of the global economy will have increased, decreased, or stayed about the same?

	U.S.	Europe	Japan
ncreased	25%	36%	54%
Decreased	47%	31%	13%
Stayed the same	27%	31%	31%
Not sure	1%	2%	2%

. . . BUT WESTERNERS SEE MORE HURDLES FOR FOREIGNERS

What are the biggest barriers to entry for foreign companies trying to do business in Japan?

	U.S.	Europe	Japan
Government controls on the economy, such as restrictions on large retail stores	37%	31%	20%
The power of giant Japanese conglomerates and the longstanding relationships among them	50%	46%	20%
The Japanese political system, in which the forces favoring protectionism have tremendous power	60%	47%	14%
Huge costs of investing in Japan because of high land and commodity prices	20%	28%	43%
Not sure	1%	7%	2%

JAPAN AGREES WITH CALLS TO BE A BETTER WORLD CITIZEN

As an increasingly powerful economic force, Japan should take what steps internationally to foster global prosperity?

	U.S.	Europe	Japan
Open its domestic markets	63%	65%	76%
Increase aid to developing countries	34%	39%	58%
Increase financial support of international organizations such as the UN, the IMF, and the World Bank	29%	19%	32%
Transfer its technology abroad	27%	29%	54%
Take a greater share of the military cost of protecting the Pacific Rim with the West	34%	9%	4%
Work toward promoting free trade	58%	43%	71%
Open its capital markets	41%	39%	29%
Not sure	2%	1%	0%

A BIG SPLIT OVER WORKER WELFARE . . .

Do you feel that individual Japanese workers are sharing in the enormous material success of their country's economy, or not?

	U.S.	Europe	Japan
Workers sharing success	31%	56%	69%
Workers not sharing success	67%	35%	26%
Not sure	2%	9%	5%

. . . AND CONSENSUS THAT XENOPHOBIA MUST END

To be successful in the 1990s, will Japan have to open itself to more cultural and ethnic diversity than it has in the past, or not?

	U.S.	Europe	Japan
Will have to open itself	71%	65%	90%
Won't have to open itself	26%	32%	6%
Not sure	3%	3%	4%

Edited by Mark N. Vamos

Survey of 300 U. S. and 201 European executives conducted July 6-24, 1990, for BUSINESS WEEK by Louis Harris & Associates Inc. and of 90 Japanese executives conducted July 10-25, 1990, for Nippon Hoso Kyokai by Nippon Research Center.

SHOPPING FOR JEWELRY IN GINZA: A WIDENING GAP BETWEEN THE HAVES AND HAVE-NOTS

Asia and Europe after the EC dismantles its internal borders in 1992. More than a few leading Europeans favor protections. Warns Volkswagen Chairman Carl H. Hahn: "European industry should be permitted to reap the first harvest of our political achievement." Others, such as Ulrich Cartellieri, a Deutsche Bank executive-board member with responsibility for Asia, disagree. "We should aggressively compete against Japan in its own markets. Everything else is a recipe for decline and defeat," he maintains.

Although some American and European analysts argue the gulf crisis shows Japan's fragile vulnerability to outside pressures, few Japanese executives agree. Most observers believe Japan's long-term view of its future was basically undisturbed by the latest oil price jump. Having coped successfully with two massive oil shocks in the 1970s, and having recovered from a 100% jump in the yen's value against the dollar in the mid-1980s, Japan's industrialists think their conservation measures and large inventories have largely insulated them against external pressures. "We've experienced tough times that have made us more confident," says Nobuyuki Horiuchi, general manager of accounting at Toshiba Corp.

BLIND SPOT. Japanese leaders now believe their future success depends mainly on their technological strengths. Almost all Japanese executives cite innovation as the key to growth in the 1990s. But Americans think government industrial policy will be the pivotal factor for Japan in the next decade. Disagreement is almost as wide over what is most likely to hold Japan back. The Japanese believe internal conditions, especially a smaller and older work force, will slow growth in the next 10 years. But Americans think Japan's bigger problem will be a foreign backlash for failing to open its markets more quickly.

Many analysts think the U. S. obsession with Japan's managed economy is misguided. "MITI-type industrial policy has been vastly overrated," says Deutsche Bank's Cartellieri. Hugh T. Patrick, director of the Center on Japanese Economy & Business at Columbia University in New York, agrees. "We believe that all we have to do is get the government to cool it and we'll be O. K.," says Patrick. "But it doesn't work that way."

Yet Japanese bosses may have a blind spot, too. Only 9% of them believe pressure from foreign governments could threaten their power in the 1990s, while

TECHNOLOGY IS KEY, SAY JAPAN'S EXECS

30% of Europe's executives and 40% o those in the U. S. do. "They're not recog nizing the resentment that's been crea ed in the U. S. and Europe," say SmithKline Beecham CEO Henry Wend "If there is a danger to the world trad ing system, it is the desire of many to i effect outlaw Japan and Japan's appa ent failure to recognize that."

HAVE-NOTS. Still, while executives do no underestimate the power of Japan tightly knit *keiretsu*, or business con glomerates, and its political systen many seem wary of making those fa tors an excuse for Western competitiv weakness. "If one is looking for ne business with the Japanese, the No. issue is quality," says Chairman Davi B. Lees of Britain's $5.2 billion GKN PL one of the world's largest auto-part manufacturers and suppliers.

One clear agreement emerges fro the poll: The outlook for the U. S. role i the global economy is grim. Asked abou the U. S. share of the world market in 1 years, 73% of Japanese respondents, 54 of Europeans, and 47% of American said it would decrease. Growth in th U. S. has already slipped below 2% Higher oil prices will tack $14.5 billio onto the U. S. trade deficit, says Sanw Bank Ltd. chief economist Kazuaki Ha ada, and may tip the U. S. into a rece sion. "This comes at a very bad time i the economic cycle," says Harada. "Th damage will be much worse for the U. S than Japan."

Whether Japan's edge will transla into higher standards of living for i workers is another matter. American e ecutives say Japanese workers aren sharing the wealth, while Japanese r spondents claim they are. But, says Ke University's Heizo Takenaka, "if tha question were directed at workers, th response might be quite different." Clo ing the widening gap between Japan haves and have-nots could be anothe major challenge the Japanese aren't ad quately anticipating.

One goal Japan's bosses do seem t recognize—even more than Wester ers—is that they will have to find a be ter way to accept foreigners in their s ciety. Japanese executives als outnumber Americans and Europeans saying that Japan must do much more t foster economic prosperity around th world by opening its domestic market sending more aid to developing nation and transferring technology abroad. Th consensus could signal that Japan's c operative spirit could grow along wit its drive for economic dominance in th 1990s.

By Ted Holden in Tokyo, with William Holstein in New York, John Templeman i Bonn, and Richard A. Melcher in Londo

/HY HANSON IS SO EAGER O HELP THATCHER PRIVATIZE

ying the PowerGen electric utility could bring a huge cash flow

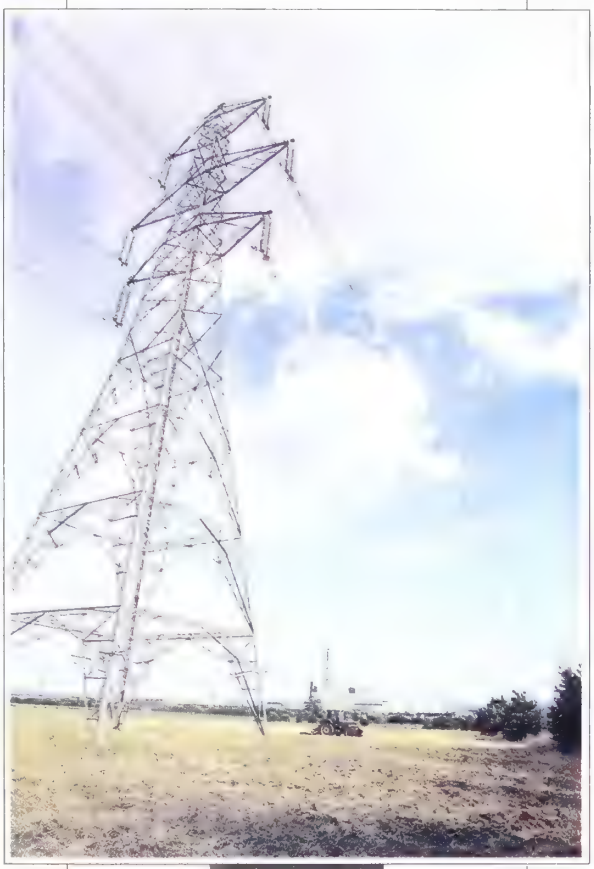
Acquisitive British conglomerate Hanson PLC has thrived for more than two decades by adhering to rict set of guiding principles. Among n: shun capital-intensive industries. why is Hanson likely to bid more ı $2.6 billion for a huge British elec- utility, one of the most capital- gry businesses of all? Put simply, smart financiers at Hanson ll easy money, and lots of it.

ı a controversial deal, Hanson etting the first shot at a major nk of Britain's electricity in- try, which Prime Minister Mar- et Thatcher wants to privatize. plan called for public sell-offs, Hanson secretly approached government in May with an r to buy PowerGen PLC, the ller of the two generating panies included in the $20 bil- privatization. Concerned about ability of London markets to orb the entire industry, the ernment jumped at the chance.

RUFFLED. This cozy arrange- ıt was disturbed in late July, n details of the deal leaked . Hounded by charges of crony- —Hanson is a big backer of governing Tory party—embar- sed government ministers as- ed the public that an auction PowerGen would take place if ts with Hanson led to an ac- table bid. It would simply es- lish a starting price. They also de it clear that Hanson would d to make a firm, no-money- k offer topping $2.5 billion, the st a public flotation would like- etch. An unruffled Hanson was wide- expected to announce its opening bid the end of August. PowerGen execu- s are already scrambling to put to- her a rival management buyout, and er groups may join the fray.

Despite being a utility with a score of ng, mostly coal-fired plants, Power- n looks attractive because of the way tain has reorganized its electricity work. Trying to create a free market a normally monopolistic industry, the vernment has carved it up. Nuclear nts remain state-owned, while the ıventional plants are split between o companies, PowerGen and National wer PLC. The government also is al- ving new entrants to build private power plants. In turn, the producers are supposed to compete on price to supply electricity to a dozen regional distributors, which will also be privatized.

But with only two major electricity producers, most observers predict that price competition will be gentlemanly. "If you have a duopoly, it's feasible you could have a sort of cartel," says Charles Reekie, a consultant to the electricity distributors at BDO Consulting in London. And any new entrants probably won't make much impact for years. That's good news for Hanson, which likes stable, cash-generating businesses. PowerGen, which owns a third of the power plant capacity and has annual revenues of $5 billion, is likely to have a captive market for years to come.



A private PowerGen is likely to keep its captive market and would be almost unregulated

Lack of regulation is another key attraction. Convinced that market forces will keep prices down, the government isn't regulating the profits of the power generators. That's a far cry from the U. S., where utilities are limited to a given return on capital. So if the tightfisted Hanson can squeeze costs, the rewards should flow to the bottom line. By most accounts, there's plenty of fat in PowerGen. Stephen Clapham, analyst at Nomura Research Institute in London, figures at least 10% of the 9,500 employees could be cut quickly, improving profits by nearly $40 million.

Another big saving could come in 1993, when fixed-price contracts between PowerGen and state-owned British Coal Corp. run out. To protect miners, the government forced both big power producers to buy high-cost local coal for three years. But after that, PowerGen will be able to look for cheaper fuels, and can probably pressure British Coal into lowering prices.

Noting Hanson's record of sacrificing market share for improved cash flow, cynics argue that Hanson could milk PowerGen by slashing capital spending. The power company spent $285 million last year on capital projects and plans to build a new $650 million generating plant every two years. It also intends to spend $1 billion over the next decade on required pollution-control gear.

MAJOR RISK. But those plans could be scaled back. Hanson might find a way to cut emissions through use of low-sulfur coal or natural gas. And, unlike nearly every other utility around the world, PowerGen has no legal obligation to build new capacity to keep pace with electricity demand. "If Hanson doesn't spend a lot on capital improvement, and plays the depreciation charges right, this thing could turn out to be a nice cash generator," says an outside adviser to the British government.

The major risk for Hanson or any other buyer from outside the industry is that of making mistakes because of unfamiliarity with the electricity business. But Hanson executives have been poring over the books of PowerGen for the past month and are likely to retain most PowerGen managers. "Hanson isn't in this for the fun of it," says Morgan Stanley International analyst Robert W. Haville. "I'm sure they're convinced they can make a lot of money." Most observers think Hanson will find a way to turn on the profits at PowerGen.

By Mark Maremont in London

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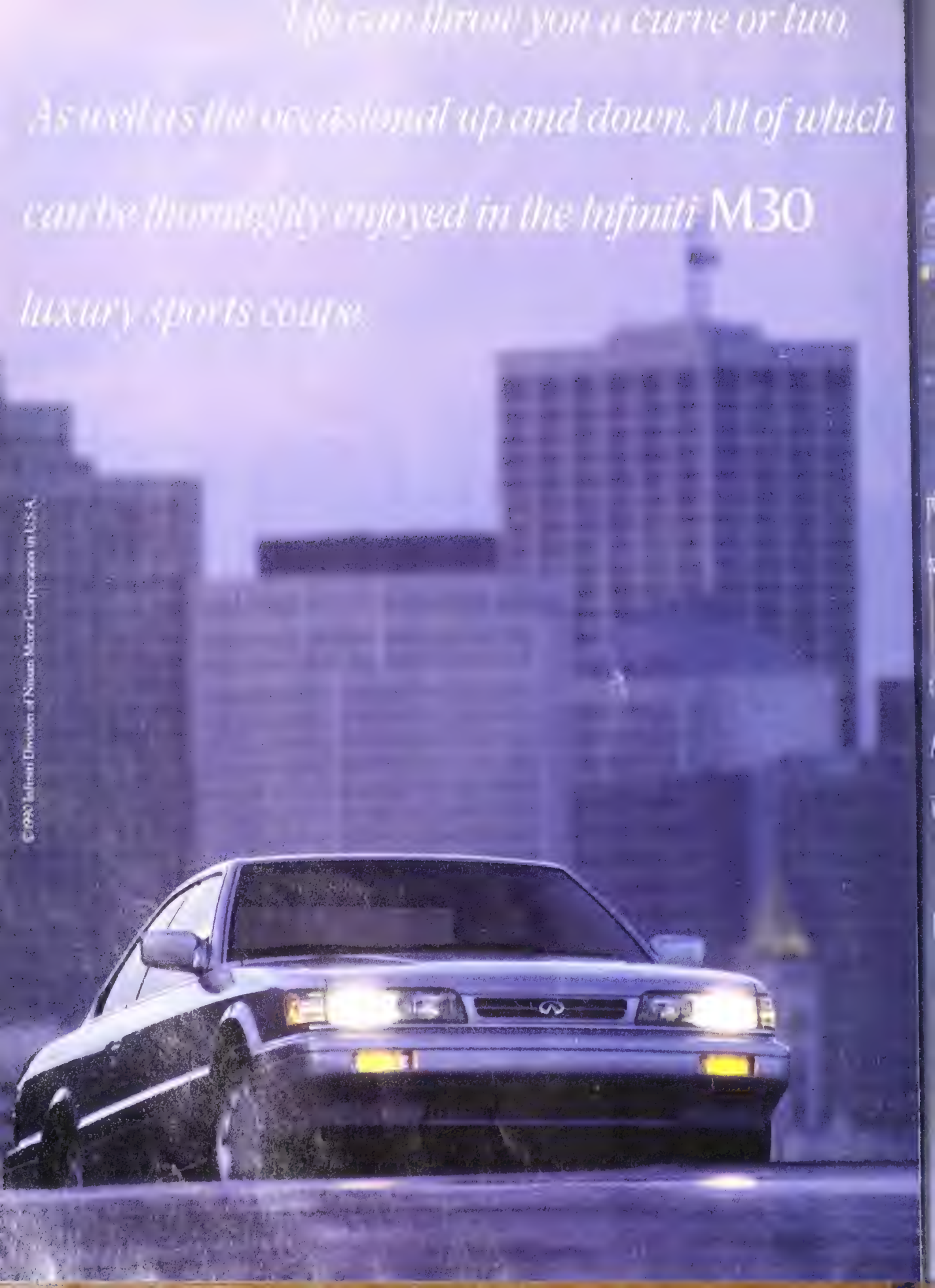

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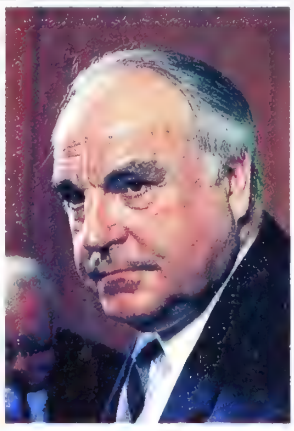
EDITED BY JOHN PEARSON

GERMANY THINKS TWICE ABOUT PICKING UP THE SWORD AGAIN

Germany's much-heralded reemergence as a political and military power, backed by its expanding economic clout, is turning into an awkward anticlimax for Chancellor Helmut Kohl. While even Belgium and Spain are sending ships to the Persian Gulf, Bonn's contribution to the defense of Europe's vital oil supply so far is five minesweepers patrolling the Eastern Mediterranean, far from the scene of potential conflict. In a talk with Italian Prime Minister Giulio Andreotti, Kohl indirectly suggested sending German minesweepers to the gulf, but his trial balloon was quickly shot down by angry opposition from his coalition partners, the Free Democratic Party, as well as from the opposition Social Democrats and Greens.



KOHL: HOW BIG A ROLE?

President Bush wants forces flying many flags in the gulf to help enforce economic sanctions against Iraq and, more important, to show that the U. S. has broad international support in its campaign to turn back Saddam Hussein's aggression. So far, though, the White House hasn't made a direct military commitment in the gulf a litmus test of allied loyalty, even though Kohl owes Bush a big political debt for his help in blasting away roadblocks to German unification. But if a new gulf war breaks out, Americans are likely to start asking why Europeans—especially Germany, with Europe's biggest armed forces after the Soviet Union—aren't doing more to defend their own interests in the Middle East. In that case, worries about resurgent German power that were being voiced by many Europeans and some Americans only a few weeks ago could be quickly forgotten.

PEACEKEEPING MISSIONS. Kohl's problem is the 1949 German constitution—written under the scrutiny of the U. S. and other World War II victors—which limits West German forces to a defensive role in Europe. Sending naval ships to the gulf despite that prohibition would stir a divisive constitutional and foreign-policy debate that could hurt Kohl's coalition in the Dec. 2 all-German elections. It would also force Kohl to grapple with what Ralf Dahrendorf, a former Bonn cabinet minister who is now an Oxford don, calls Germany's "underlying pacifism." Although recent German opinion polls run 70%-plus in favor of Germany staying in NATO, a sizable minority of voters wants out of all military commitments. The bulk of the Green Party and part of the Social Democratic Party, the main opposition, are neutralist. And Kohl's partners, the Free Democrats, led by Foreign Minister Hans-Dietrich Genscher, want to limit any role by German forces outside Europe strictly to United Nations peacekeeping missions.

By contrast, many members of Kohl's own Christian Democratic Union are disgusted at what they call Germany's lack of spunk in the current crisis. The reluctance to send ships to the gulf is "shameful and parochial," says Jochen Thies, an official of the German Foreign Policy Society, a think tank close to Kohl's government. "We are only weeks away from becoming a sovereign country." Karl Lamers, a Bundestag spokesman for Kohl's party, adds that leaving the defense of German interests to allies "will be even less possible in a reunited Germany than it is today."

After the election, Germans who insist that the country should wield military and political muscle commensurate with its economic strength will push for action by the Bundestag to revise the constitution. That will make it urgent for NATO to revamp itself to provide a framework for exerting joint U. S. and European influence and military clout, including Germany's, outside Europe. Such a potent alliance might be able to deter crises such as the current one before they explode.

For the U. S., it took several decades and two world wars to decide it was a global power. Kohl now has much less time to find a consensus among 78 million reunited Germans on what their role in Europe and the world should be.

By John Templeman in Bonn, with bureau reports

GLOBAL WRAPUP

EAST ASIA

The cold war has persisted longer in Asia than in the West, but there are signs now of a quickening thaw. For the first time, the foreign ministers of North and South Korea are scheduled to meet in early September in Seoul. Observers doubt that much progress will be made toward easing the bitter North-South rivalry, and Pyongyang could still cancel the meeting, just as it has called off many North-South contacts in the past. But North Korea is clearly feeling the need to break out of its deepening isolation as the South broadens its links with the rest of the world. On Aug. 16, the first Soviet consular official arrived in Seoul as part of expanding ties between the two countries. This year, two-way trade is expected to reach $1.2 billion, double the 1989 level.

Pursuing their goal of becoming a full-fledged Asia-Pacific power, the Soviets will host a Sept. 4-6 conference of delegations from 20 countries in Vladivostok, a port once off-limits to foreigners. And Foreign Minister Eduard A. Shevardnadze will go to Tokyo on Sept. 5 to lay plans for a visit by President Mikhail Gorbachev next spring.

East Asian geopolitics is also shifting as China tries to overcome the international isolation that resulted from its Tiananmen crackdown last year. To improve its standing in the West, Beijing has voted with the consensus in the U. N. so far to condemn Iraq and impose sanctions for its invasion of Kuwait. Recently, Beijing also scored political gains by renewing relations with Indonesia after a 23-year break and establishing ties with Saudi Arabia, which formerly shunned Beijing and maintained close relations with Taiwan. The Chinese have also begun talks with Vietnam and are expected to normalize relations with Singapore. Such realignments are making Asia "a bit more stable," says a senior Japanese official. But, he adds, "the basis of our power in Asia is economics, and that doesn't change much."

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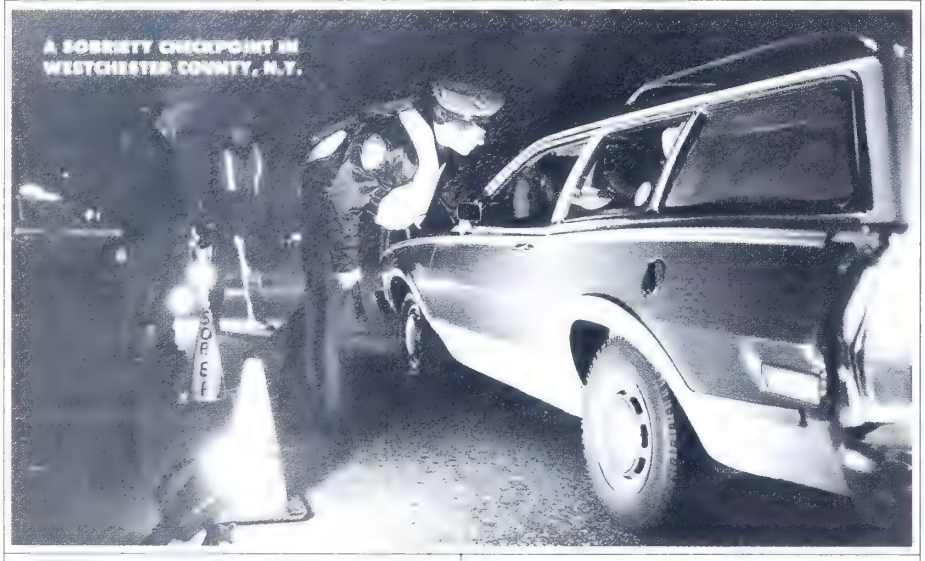
YOUR RIGHTS VS. MY SAFETY: WHERE DO WE DRAW THE LINE?

As crime soars, 'acceptable intrusions' on individuals gain support



"The system is not working for the decent law-abiding people, it is working for the perpetrators," says Ramona Younger in an affidavit filed in an Alexandria (Va.) lawsuit last month. Younger, a community activist, supports a local antiloitering law aimed at street-corner drug dealers. The American Civil Liberties Union and the National Association for the Advancement of Colored People are challenging it as an infringement of individual rights, with racist overtones. But Younger, who is black, maintains that the ordinance is a helpful tool for those trying "to get the drug business off our streets."

Younger has company in her concerns. An emerging group, sometimes called "communitarians," believes that the cause of the individual has gotten out of hand, jeopardizing community needs and public safety. For some in this movement, the problem is overemphasis on individual rights. Others are more troubled by what they see as rampant, irresponsible individualism throughout American society.

'A MIDDLE WAY.' Communitarians seek balance, says George Washington University sociologist Amitai Etzioni. "We are trying to sort out a middle way between such libertarians as the ACLU, for whom rights are everything, and groups like the Moral Majority, who would easily violate individual rights." Early in 1991, Etzioni plans a new journal, *The Responsive Community*, to air the debate over rights and ethics.

The movement has even spawned a scrappy public-interest group, the Washington-based American Alliance for Rights & Responsibilities (AARR), headed by Roger Conner, a one-time environmental lawyer who also founded the restrictionist Federation for American Immigration Reform in 1979. AARR pledges to promote "civic responsibility and voluntary restraint" by representing community groups "whose creative initiatives against crime, drugs, and school failure are blocked in court by absolutist assertions of individual rights." Etzioni, former American Bar Assn. President William Falsgraf, and Susan B. King, a former Consumer Products Safety Commission head, are among AARR's board members.

With help from Washington law firms McGuire Woods Battle & Boothe and Wilmer, Cutler & Pickering, AARR has filed a brief on behalf of the Alexandria ordinance. It also supported traffic sobriety checkpoints in Michigan, which the U. S. Supreme Court upheld in June. And it has taken on the ACLU in another Michigan case, over whether police can screen drivers entering a housing project as a way to scare off buyers of illegal drugs.

Pro-community thinkers span various viewpoints and goals. Some don't endorse AARR, and some reject the communitarian label. Harvard comparative-law scholar Mary Ann Glendon dislikes the phrase "community rights," which she feels suggests "the harmful possibility of suppressing minorities."

To Glendon, a co-editor of *The Responsive Community*, the problem is rights divorced from responsibility. She believes that Americans' "increasing tendency to formulate all important questions of public policy in terms of rights and clashes of rights" has stymied debate on such issues as abortion, AIDS testing, and violent crime.

KEY CRITERIA. Etzioni goes further. He backs drug tests for train engineers, fingerprinting of children to foil kidnappers, weapons screening at airports, drunk-driving checkpoints, and the Alexandria antiloitering law. These "acceptable intrusions" on rights meet key criteria, he says: They are minimal, respond to clear and present dangers, and no alternative measure would produce the desired effect.

The tension between individual rights and the common good is built into the U. S. Constitution, with a preamble that gives the government power to promote the general welfare and a bill of rights affirming basic freedoms. Ira Glasser, executive director of the ACLU, says complaints that the balance has tipped are nothing new. "Communitarian really means majoritarian," he says. "The tendency is to make constitutional rights responsible for the failure to solve social problems."

COMMUNITARIAN AMITAI ETZIONI

Still, the notion of "community" seems to be sprouting everywhere. Harvard sociologist Michael Sandel wants liberals to shift their focus from individualism to communal values—though he sees corporate concentration and capital mobility, not rights, as prime threats to community.

National surveys, meanwhile, show a mounting search for community and a view that the pendulum has swung too far in the direction of individual wants and needs. Pollster Daniel Yankelovich of DYG Inc. connects the draw of communitarianism with "a growing unease about the moral climate." But then, Yankelovich, who is on *The Responsive Community*'s board, counts himself a communitarian, too.

By Elizabeth Ehrlich in New York

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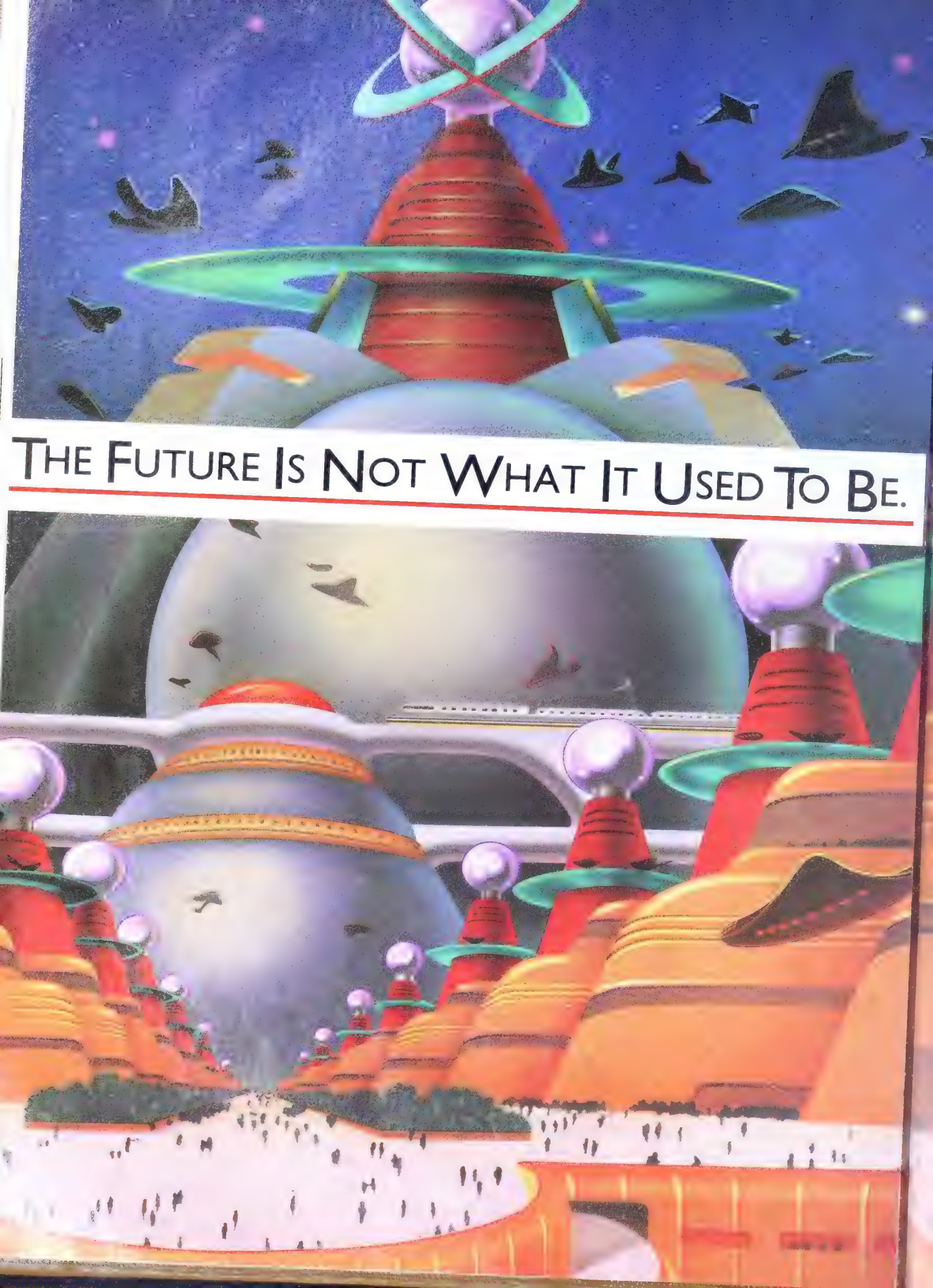
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J.R. SIMPLOT: STILL HUSTLING, AFTER ALL THESE YEARS

At 81, he's concentrating on enlarging his eclectic empire

Two years ago, Jack Simplot was walking the display floor of the biennial McDonald's Corp. convention in Washington when he spied something that made his eyes light up. Among the latest milk-shake machines and deep-fat fryers, he saw a robot that was actually cooking up batches of Chicken McNuggets and french fries by itself. Simplot quickly pulled aside the inventors. Half an hour and a handshake later, he had agreed to invest $1 million for 25% of their fledgling company, Robot Aided Manufacturing Center Inc. The robot, Simplot says with awe, is "the slickest damn thing you ever saw."

If it looks that way to John Richard Simplot, it has to be pretty slick. Simplot's nose for opportunity helped him build privately held J. R. Simplot Co. into a $1.3 billion-a-year operation. Best known as the company that supplies McDonald's with its golden fries, it's also into frozen produce, microwaveable food, cattle, mining, land-based fish farming, and more. He has turned over ownership to his four children, but Simplot, 81, still calls the shots. Now, he's further diversifying the family's eclectic businesses and trying to reach $2 billion in revenue in 1993.

As he stretches for that ambitious goal, however, questions loom about who will run the business down the road. Friends say the only family member he wants to turn it over to is son Scott, 43. Sporting a Wharton MBA and a knack for computers and finance, he might seem a logical choice. But Scott, a board member and vice-president, apparently doesn't want the job. "He prefers not to be in the limelight," says Ralph J. Comstock, a board member and friend of the eldest Simplot, who remains chairman. Scott declined to be interviewed.

FAMILY FEUD? For the meantime, day-to-day management of the company belongs to a team of handpicked executives. The current CEO is Gordon C. Smith, 62, a 36-year Simplot veteran who was elected to the top post two years ago. But there are three family members waiting eagerly in the wings: Sons Richard, 56, and Don, 54, are also vice-presidents and board members, as is son-in-law C. L. "Butch" Otter, 48. Richard and Don are involved with operations and administration policy, while Otter, Idaho's lieutenant governor, is active in public and employee relations. The five family members and the CEO form the Executive Committee, which approves new top executives.

Otter says he and two brothers—presumed to be Richard and Don—each nominated himself for president two years ago. But none could get enough votes, so Smith won. When Smith leaves, which many expect to happen in 1993, the family could be in for another clash. "We're pretty brutal with each other when we close the doors," Otter says. Simplot will only say that he expects a family member to take charge of the company one day.

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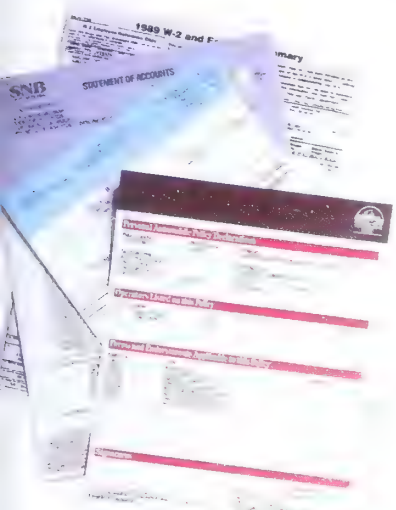

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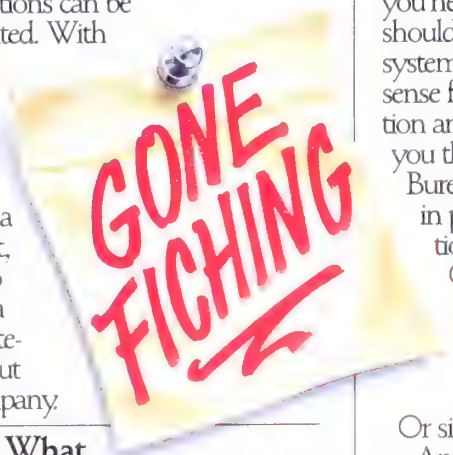

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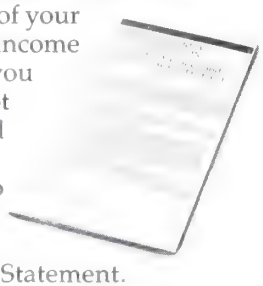

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imagine J. R. Simplot Co. without its namesake. He's an outspoken, optimistic ox of a man with a reputation as a demon skier, a crack shot as a hunter, and an avid horseback rider. But even he must slow down someday. A sore hip joint, the first major medical problem he's ever had, he says, has kept him off horses and skis for the past year. "There comes a time when you have to quit that foolishness," he says wistfully. "Maybe it's now. I hope not." He attacks business with the same zeal, while wearing patriotism like a trademark. A 55x30-foot flag flaps so loudly outside his Boise, Idaho, mansion that neighbors complain it keeps them awake at night. "I love America," he says. "We've got the only system that works. It keeps everybody hustling."

POTATO SORTER. Hustle is a Simplot specialty. Flying by intuition rather than market research, he made his empire a model of vertical integration. When he had trouble getting fertilizer for his potatoes, he started his own factory and now runs four plants that produce it. When he ran into a shortage of phosphate for fertilizer, he leased land from an Indian reservation and started the largest phosphate mine in the West, now one of three mines the company runs. Byproducts from some of his 10 food-processing plants go into his cattle feed. He started his own construction group to build his plants, a finance company to bankroll them, and a transportation business to move products to market. His own cogeneration plants supply him with energy.

The roots of Simplot's empire can be traced back to 1924. The son of an Iowa farmer, he started in business buying and selling pigs. With a partner, he bought the first electric potato sorter in Idaho in 1932 for $250. Later, he became a major supplier of dried potatoes to the U. S. military forces in World War II. During the war, Simplot also decided to back one of his chemists who thought he could freeze potatoes, even though every potato farmer knows that cold weather turns potatoes to mush. By blanching and cooking the potatoes first to stabilize the starch, Simplot's company invented the frozen french fry. Today, Simplot supplies McDonald's with some 80% of its fries.

Simplot has had a few run-ins with the authorities over the years. In 1976, he was fined $50,000 by the Commodity Futures Trading Commission for allegedly trying to manipulate the price of potatoes. He says it was an error that a partner led him into during a price war with rivals. He was also fined for underpaying income taxes from 1971 to 1973. He says he regrets pleading guilty but

that he did so because the fine equaled only a month's pay for his lawyers.

Now, Simplot and Smith are looking for growth by expanding their existing businesses and hunting up new ones. They are pushing the retail food business by adding new sandwiches and milk shakes to Simplot's MicroMagic line of microwave frozen food. Smith is also testing a plant that grows tilapia, a warm-water bass-like fish, in tanks supplied with hot water and nutrients from the waste of a nearby food processing plant. The fish fillets are sold to restaurants and supermarkets.

Simplot's contributions are sometimes so radical that Smith says one of his main jobs is to hold him back. One of Simplot's current schemes is building a string of coal-fired power plants along the scenic Snake River in Idaho. Aside from raising the ire of environmentalists, it would require hundreds of millions of dollars just to string up the power lines to the Southwestern states that are the intended customers. Says A. Dale Dunn, Smith's predecessor and a big fan of Simplot's: "He's a risk-taker bordering on a gambler." His investment in Robot Aided Manufacturing (RAM) Center is an example. Although he wrote a check for $1 million two years ago, he only recently made his first trip to its offices in Red Wing, Minn.

ROUGH PATCH. The results of his latest acquisitions are lukewarm so far. The MicroMagic line has just 11% of the microwave sandwich market, according to researcher Arbitron/Samscan. That makes it a distant second to Chef America's 20% share, despite the fact that MicroMagic pioneered the category in the U.S. six years ago. The sandwiches "really don't taste very good," says John M. McMillin, a food analyst at Prudential-Bache Securities Inc. RAM Center has opened a couple of automated kiosks that sell compact disks, but McDonald's will not yet talk about plans to automate its kitchens. Micron Technology Inc., a chipmaker 14%-owned by Simplot, has hit a very rough patch after a few years of solid growth. Intense price pressure should knock earnings down to around $8 million this year. Last year, it earned $106 million on $446 million in revenues.

Simplot won't say how profitable his company is, but Smith says that even with modest profits, it can afford its expansion plans. Unlike public investors, the Simplot family allows most of the profits to be put back into the company. "Profits are never going to be great," Smith says. "But as long as we're good at what we're doing, they'll be adequate." When Simplot's children decide who will run the show next, they may look at things very differently. But until then, they'll have to do it his way.

By Richard Brandt in Boise, Idaho

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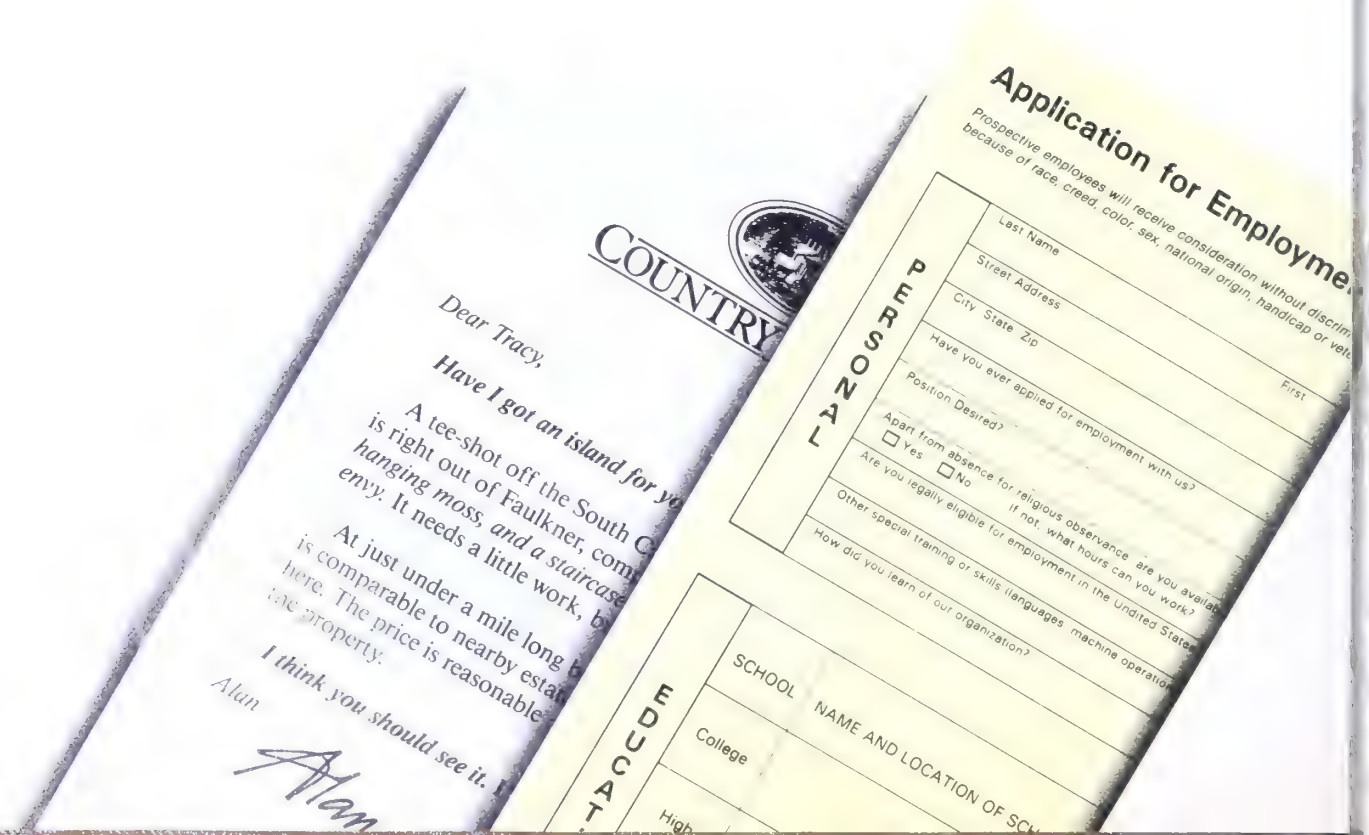

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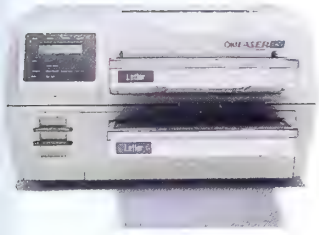

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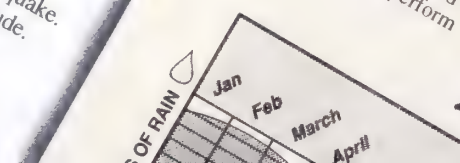

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EDITED BY ANDREA ROTHMAN

BERT MITCHELL: BOOSTING THE RANKS OF MINORITY ACCOUNTANTS

Most people relish the honor of being the first to accomplish something. Bert N. Mitchell has had that experience more than most, but his feelings about it are mixed.

Three years ago, Mitchell, the head of accounting firm Mitchell/Titus & Co., was named president of the New York State Society of Certified Public Accountants, making him the first black to head a state society of CPAs. This year, his firm became the first minority-owned accounting firm among the nation's 50 largest. It's gratifying, Mitchell says, but "I think it's unfortunate that I have to keep being the first. Hopefully there will be more blacks."

That has become a mantra of sorts. Mitchell, 52, is known among CPAs for his 1969 study showing that just 150, or 0.15%, of the nation's 100,000 accountants were black. The study led to the founding of scholarships, internships, and special seminars. This August, Mitchell made public a new study showing that there are now 2,500 black CPAs out of 400,000, or 0.6%.

Mitchell grew up in Jamaica and moved to the U. S. in 1958. He studied accounting at Bernard M. Baruch College and started his own firm in 1973. Mitchell/Titus now has 14 partners, 11 black, and 185 employees. In January, it merged with Leevy, Redcross in Philadelphia, and Mitchell hopes to have a presence from Washington, D. C., to Boston by 1995.

Much of his free time is devoted to family, his African art collection, and golf. And he's still working to boost the number of blacks in accounting. His goal is 5% by the year 2000. It doesn't take an accountant to see he's got a lot of work ahead.

MARILYN TAM: CAN SHE PUMP UP REEBOK'S SPORTSWEAR, TOO?

At their first meeting three years ago, Marilyn H. Tam told Nike Chief Executive Philip H. Knight just what was wrong with his apparel division: weak identity, ho-hum fabrics, and unfocused marketing. "She's not reticent about giving her opinion," recalls Knight. But her ideas were intriguing enough to get her a job running the division. In 18 months, Tam lifted annual sales of Nike sports clothing 50%, to $205 million.

Now, after leaving to consult on her own, she's back for a reprise. This time, she's in charge of apparel at Nike's rival, Reebok International Ltd. It's a tough gig. Lacking Nike's image as clothing for serious athletes, Reebok's duds have floundered. U. S. sales last year were $45 million, about the same as in 1986, and a sixth of Nike apparel's $280 million. Like Nike in former days, Tam says, there has been no consistent message behind Reebok's apparel and little coordination with its hot footwear.

Tam, 40, grew up in Hong Kong, the daughter of a "one-man conglomerate" who traded stock, developed property, owned a fish farm, and served as superintendent of schools—all at once. Tam is no less driven. She skipped three years of high school, then crammed into three years a double major of economics and nutrition while swimming competitively at the University of Oregon. Next, she hitched on as a buyer with May Co. of California and "fell in love with the trade."

At Reebok since January, Tam spends much of her time pitching new clothes to stores. She's also seeking ways to add excitement. One thought: using Reebok's "pump" shoe technology in clothing, with inflatable bladders at the knees and elbows. Sounds good—so long as it inflates the bottom line.

By Keith H. Hammonds in Boston

MITCH MAIDIQUE: A SMALL SCHOOL PUSHES FOR THE BIG TIME

When a friend showed up early for a party at Mitch Maidique's house recently, he found his host alone in a room, flailing a baton in time to a Berlin Philharmonic recording of Mozart's 40th. Maidique, president of Florida International University, was surprised but not embarrassed. His fantasy, he admits, is to conduct a great orchestra.

On the job, Maidique does more than just dream about presiding over a top-notch institution: He's trying to create one. The 50-year-old administrator is leading an aggressive effort to transform FIU from an obscure state school into a major research university. In Maidique's four-year reign, the number of doctoral programs offered by the school has jumped from 2 to 17. Enrollment has climbed 37%, to 22,500, and the faculty has tripled in number, to 1,200. By enlisting local corporate chieftains to lobby lawmakers, Maidique has won $100 million from the state to fund a five-year construction program, as well as additional money for salaries and other needs.

Maidique's credentials in both the academic and business worlds are solid. A Cuban émigré, he supported himself as a student at Massachusetts Institute of Technology by teaching ballroom dancing at Arthur Murray. In the late 1960s, taking a doctorate in electrical engineering at MIT, he helped found a semiconductor subsidiary for Analog Devices Inc. Maidique left the $50 million subsidiary in 1980 to teach management at Stanford University, then moved to Miami in 1984 to found a private investment group.

Now at FIU, Maidique concedes that the institution has a ways to go before it's a major research university. Its postgraduate offerings are still few, and there is no law or medical school. But Maidique remains undaunted. He likes to think of himself as a CEO who has to juggle department budgets, personnel, and long-term planning. "I like to manage this place as if it were a hot-growth, high-tech company," he says. Lately, that's the way it has been looking.

By Irene Recio in Miami

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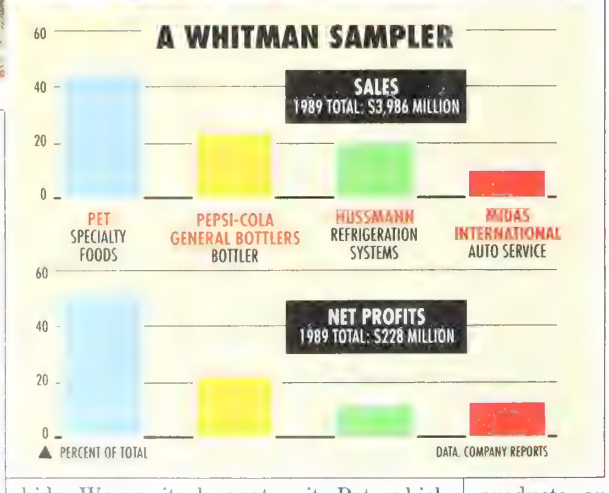
WHITMAN IS STILL TRYING TO BALANCE ITS DIET

It's trimming fat, but it must fix—or sell—Hussman and shore up slumping Pet Foods

A VAN DE KAMP'S SEAFOOD PROMOTION

Corporate makeovers are nothing new at Whitman Corp. After snapping up everything from muffler-repair shops to specialty food brands during the 1970s, the old IC Industries Inc. conglomerate has been pruning its clutch of companies since the late 1980s. Off went the Pneumo Abex Corp. aerospace division in a $1.3 billion deal in 1987. Then, in early 1989, IC severed its ancestral ties. Under its new moniker of Whitman—as in Whitman's Sampler chocolates—the company spun off the Illinois Central RR to shareholders.

So far, so good. But then, in March, Whitman announced yet another restructuring. It would sell off its Hussmann Corp. food-equipment unit and refashion itself into a food and soft-drink bottling powerhouse. The Whitman of the 1990s would be driven by its high-growth specialty food unit, Pet Inc., its Pepsi-Cola General Bottlers Inc. operations, and muffler king Midas International Corp. But this latest restructuring hasn't exactly gone according to plan. On Aug. 14, Whitman yanked Hussmann off the block after failing to draw high enough bids. Worse, its largest unit, Pet, which chips in about half of sales and profits, is now losing market share and suffering from eroding margins.



Those pressures led Pet to report a 2.2% drop in operating income in the second quarter. And that, together with a sharp downturn at Hussmann, pushed Whitman's operating income down 2%, to $113.6 million on sales of $1.03 billion. After the bad news surfaced in early August, Whitman ousted Pet's chief executive officer, J. Robert Copper. Some suggest there was a clash between Copper and Whitman President Miles L. Marsh, who jumped from General Foods USA to Whitman last year. Says one former Whitman executive of the spat: "It related to personality, it related to turf, it related to style." A Whitman spokesman says Pet's woes meant "the company needed a change in management."

ONE BOSS. Copper concedes that control over Pet was an issue. After Whitman's popular cigar-toting chairman, Karl D. Bays, died last November, the board tagged an oil man, Amoco Vice-Chairman James W. Cozad, as his replacement. Cozad is planning to scrap Whitman's loose holding-company structure, and such a shift would "not leave room for CEOs at the subsidiary level," says Copper. "I wanted to be [Pet's] CEO." Both Marsh and Cozad declined to be interviewed for this article.

For now, Marsh will call the shots at Pet—and his first task will be to add some spice to Pet's Old El Paso Mexican food and Progresso brands, representing some 35% of the unit's profits. Until recently, Old El Paso thrived in the hot market for Mexican food, which is growing by 11% a year, or nearly double the pace of the overall food business. But that appetizing growth has drawn the attention of some hungry titans. Geo. A. Hormel & Co., for example, has obtained rights to use the popular Chi-Chi's restaurant logo on its products and since 1987 has been expanding its line of Mexican sauces and dips. And Dutch giant Unilever PLC has hit the shelves with an expanded Tio Sancho line.

The result: Old El Paso's share has slipped 1.4 points, to 30%, so far this year. Meanwhile, Progresso has seen its share of the ready-to-eat soup market drop 1.5 points, to 28.5%, under steady attack from Campbell Soup Co., which some analysts say may be cutting prices to win back the market share it lost to Progresso in the 1980s. Robert F. Bern-

CHART BY BRENDAN ROSS

stock, a vice-president of Campbell Soup Co., denies that, but warns: "We clearly intend to defend our franchise."

In response, Pet has relied heavily on couponing and other price promotions for Progresso and Old El Paso, as well as its recently acquired Van de Kamp's seafood line. But that promotional spending has hit operating margins, now down to 14%, from 16% in 1988.

Pet's headaches won't help Whitman's overall results this year. Neither will an expected $100 million charge, largely to cover layoffs when the holding company format is dropped later this year. Goldman, Sachs & Co. figures that the company's net income will drop 15%, to $193 million, on a 7% gain in sales, to $4.29 billion. Investors aren't amused: Whitman's stock has fallen 37%, to about 22, from its 52-week high of 35.

Pet isn't Whitman's only woe. Thwarted in its efforts to dump Hussmann, the company will still need to fix the nation's largest maker of refrigeration equipment and display cases for supermarkets. It hasn't been a particularly profitable business of late. Hussmann's return on assets has trailed those of Whitman's other units four years running. While orders are up after a dismal first half this year, analysts still want Cozad to sell the unit. A big reason is Whitman's balance sheet: Had Cozad managed to sell Hussmann and pick up the $400 million expected in aftertax proceeds, he would have made a real dent in Whitman's long-term debt of $1.9 billion, which is a high 65% of total capital. With bank financing tight, a satisfactory bid seems unlikely for now.

WHY CONSULT? In the meantime, Cozad and Miles are under the gun to trim overhead. In September, management consultant A. T. Kearney Inc. will report the findings of its six-month study of Whitman's new management structure. One idea that may surface, analysts figure, is to fold Midas, Hussmann, and Pepsi General into Pet, eliminating redundant legal and financial staffs.

Seems simple enough. So some investors wonder why Cozad needs a management consultant to bless such a move. "My antennae tend to go up when a company has to engage consultants to study what to do," says Arthur Cecil, an analyst for T. Rowe Price Associates Inc., a shareholder that recently dumped half of its Whitman holdings.

Not all the news is grim at Whitman. With soft-drink prices firming, Pepsi General, the nation's No. 1 independent bottler, is rebounding from a so-so 1989. Pet's new Van de Kamp's line is a bright spot, too: It's gaining share. And Midas is expanding beyond mufflers and into oil-change and brake-repair services. But until Whitman figures out how to fix Pet and Hussmann, its goal of becoming a food-and-beverage hotshot will be out of reach. For now, the sampler has too many bitter pills mixed in with the sweets.

By Lois Therrien in Chicago

JIM COZAD: FROM THE OIL PATCH INTO THE FIRE

About a year ago, James W. Cozad was contemplating on a sunny—and early—retirement. After rising to the No. 2 slot at Amoco Corp. as vice-chairman and chief financial officer, the 63-year-old Cozad seemed a sure bet to grab his sticks and hightail it to the links. The only work Cozad had in mind was whittling down his 16-stroke handicap.

Then fate intervened. Whitman Corp. Chairman Karl D. Bays died of a heart attack last November, and Whitman's board asked Cozad, a director since 1986, to take over. After wrestling with the decision over the Christmas holidays at his vacation home near Palm Beach, Fla., Cozad accepted the offer. Says his friend Walter R. Peirson, a retired Amoco executive vice-president: "He always had a desire to run a company."

CONSUMER WHIMS. Cozad has gotten his wish. But the $4 billion Whitman is light-years away from the more studied ways of Amoco, the $29 billion oil Goliath. At Amoco, managers tend to plan in terms of decades, often the amount of time it takes for exploration efforts to yield results at the gas pump. At Whitman, catering to the ever-changing whims of consumers will force Cozad to be a little nimbler.

Luckily, Cozad has a strong right hand in Whitman President Miles L. Marsh, an ambitious and savvy 44-year-old marketer. A native of South Africa, Marsh did a stint as a McKinsey & Co. management consultant before joining Kraft Inc. in 1981. There, he spruced up Kraft's international operations and instituted a companywide cost-slashing campaign that managed to save the Chicago food giant $100 million a year. Whitman watchers have already pegged Marsh as CEO material. When Whitman's directors chose Cozad, a Chicago executive recruiter says, "they were looking for an interim executive who would not discourage Miles."

Still, Marsh could probably learn a point or two from a savvy dealmaker such as Cozad. While at Amoco, Cozad took the lead in negotiating its $4.2 billion purchase of Dome Petroleum Ltd. and its vast natural gas reserves in 1988—a prescient move given the current turmoil over Middle East oil. Another brainchild: Cozad engineered the spin-off of Amoco's Cyprus Minerals Co. metals and minerals subsidiary back in 1985. Amoco investors who held on to their Cyprus stakes have seen their shares appreciate 230% in five years. Cozad is no stranger to consumer goods, having served as treasurer with Philip Morris Cos. during the late 1960s.

Just what imprint he'll place on Whitman remains to be seen. One immediate priority will be cleaning up the company's debt-heavy balance sheet and coping with the downturn at its specialty food unit, Pet Inc. As for Whitman's strategic direction, Cozad isn't showing his hand just yet. Unlike the big, jovial Bays, who often made sweeping strategic changes, Cozad is cautious and methodical. Says a Whitman spokesman: "Jim feels comfortable with a very thorough, studied approach." And with the challenges facing Whitman, Cozad has plenty to study right now.

By Lois Therrien in Chicago

RESUME: JAMES W. COZAD

EDUCATION

1950	BS in accounting, Indiana University

EXPERIENCE

1990	Chairman, Whitman
1983-89	Vice-chairman, Amoco
1971-83	Various executive positions, Amoco
1969-71	Vice-president for finance, Amoco
1967-69	Treasurer, Philip Morris
1957-67	Treasurer, Hygrade Food Products
1950-57	Accountant, Peat, Marwick, Mitchell

Age: 63 Born: Huntington, Ind.

STRATEGIES

THAT 'VROOM!' YOU HEAR IS HONDA MOTORCYCLES

It revs up after a decade that took it from the top to Nowheresville

Making a U-turn on a slick road is a tricky maneuver. Honda Motor Co. found that out the hard way. After 10 years on Easy Street in the U. S., Honda's motorcycle division wiped out when it abandoned the high-quality, low-price formula that helped it dominate the market in the 1970s. And it made the turn just as a rising yen was slamming Japanese manufacturers.

Now, Honda is trying to reverse its slide by changing direction again. It has rolled out seven new models since September, 1989, five of them aimed at enticing first-time riders. This fall, it will reintroduce the CB-750, the beefy, four-cylinder bike that helped make Honda No. 1 among American motorcycle riders when it was first introduced 20 years ago. Honda also has cut prices across the board, sometimes by up to 10%.

ROAD RACERS. There's a lot of money riding on those moves. In the past five years, American Honda Motor Co. has seen its market share plummet from 58% to 28% (chart). Sales crashed from $1.1 billion in fiscal 1985 to $230 million in fiscal 1990. While the motorcycle business, which represents less than 1% of Honda's worldwide revenues, isn't likely to drag the company down, the carmaker's golden reputation has been dulled. "It's unusual for Honda to be so passive for so long," says John Porter, corporate planner at rival Yamaha Motor Corp.

What happened to the leader of the pack? Part of the problem is demographics. The average motorcycle rider is approaching 40 and is spending his money on other things. The age factor has shrunk the market by half in 10 years. Increased government scrutiny of motorcycle safety hasn't helped bike makers, either.

But many of Honda's wounds are self-inflicted. The company had successfully carved up the motorcycle market into a multitude of niches, ranging from dirt bikes to road racers. But in 1988, Honda's U. S. marketing officials thought they could get consumers to pay a premium for the latest in motorcycle technology. They were wrong. What's more, they tried to reposition their bikes for the upscale market just as the yen was rising sharply against the dollar. That drove customers to competitors such as Kawasaki and Suzuki, which were holding the line on price rises.

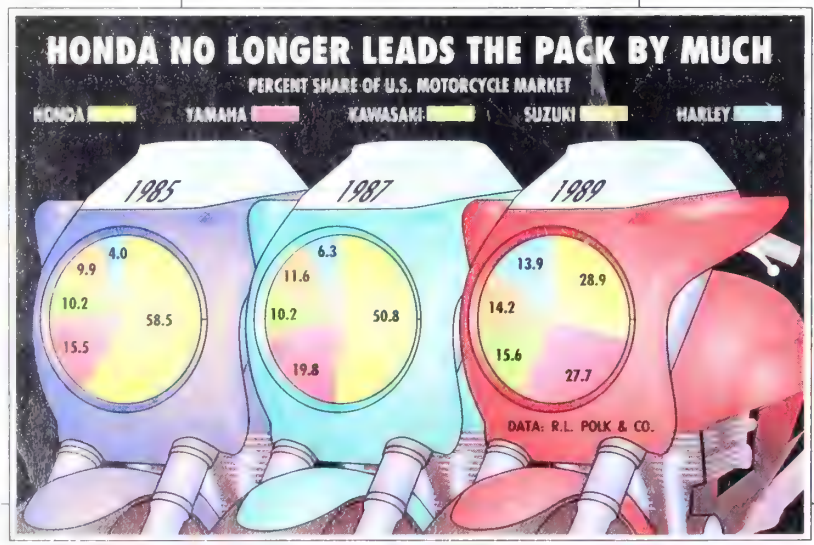
DISAPPEARING ACT. Honda made other mistakes, too. In 1985, when the Consumer Product Safety Commission began its crusade against the popular three-wheel, all-terrain vehicles, Honda was hit hard, since ATVs accounted for nearly 40% of Honda's North American sales. But instead of selling more four-wheel ATVs, which didn't fall under the CPSC's scrutiny, top U. S. Honda officials failed to increase production. Competitors took the opportunity to boost production and advertising, and Yamaha soon displaced Honda as the largest supplier of ATVs in the U. S. Honda pulled the same disappearing act in 1988 with its high-speed bikes, which critics called crotch rockets. It renamed the well-known Hurricane, and weekend racers thought Honda was abandoning the line.

Meanwhile, Harley-Davidson Inc. made an impressive turnaround after its leveraged buyout in 1981. While Honda concentrated on other lines, it virtually handed the market for heavyweight custom motorcycles to Harley. As part of its return from the dead, Harley beefed up its much-maligned quality and wooed back customers by offering everything from free rides to an attractive buyback program. Harley also listened to what riders wanted: bikes that recall the glory days of American motorcycling. Harley's most popular line, the Softail, has styling elements dating to 1948.

Honda had a plan to fight its sagging sales: Battle back with more

HONDA CB-750 | HONDA PACIFIC COAST | HARLEY-DAVIDSON 1991 SOFTAIL CUSTOM

AS HONDA STUCK TO OTHER LINES, IT VIRTUALLY HANDED THE HEAVY, CUSTOM-BIKE MARKET TO HARLEY



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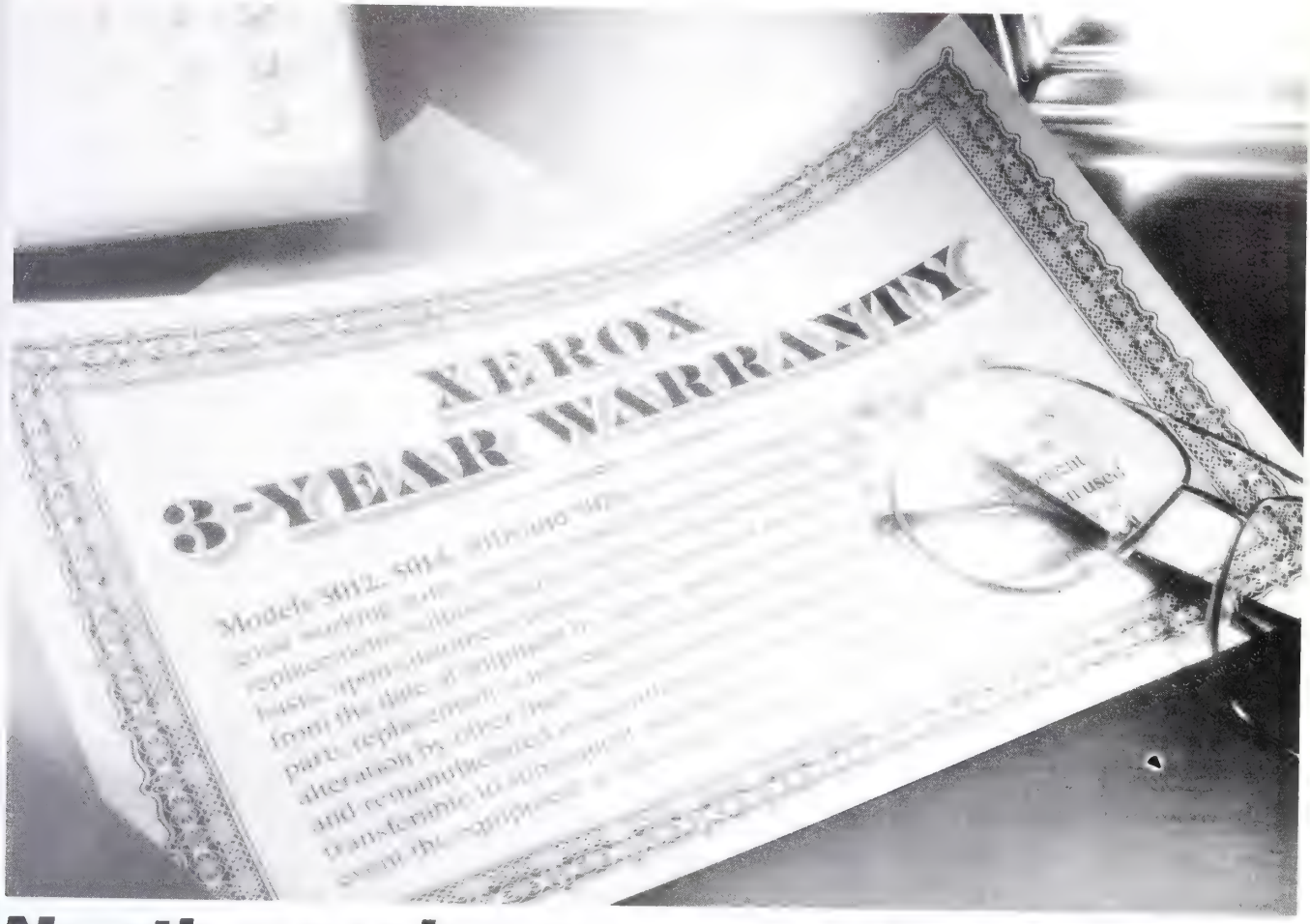

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expensive bikes. But its timing couldn't have been worse. From a rate of 250 to the dollar in 1987, the yen had soared to 120 by 1988. All Japanese bike makers had to raise prices, but Honda's bikes cost 10% to 15% more than the competition. "For all of 1989, we had a significant price advantage that was none of our doing," says Yamaha's Porter.

As a result of Honda's moves upscale, nearly 600 Honda motorcycle dealers have gone out of business since 1985, leaving Honda with 1,200 dealers in North America. At Honda's Marysville (Ohio) plant, there was so much excess capacity that officials debated on transforming a large portion of production into an auto-parts facility.

REDESIGNING. Honda's obsession with technological superiority has been its Achilles' heel. Rather than determining what the public wants, Honda has tended to add new technology and hope that demand will follow. Take the 1988 version of the popular Gold Wing touring motorcycle. Honda engineers developed more than 60 prototypes, redesigning everything from luggage compartments to fuel systems. Cost: $10,000, compared with $8,500 for the 1987 model.

The much ballyhooed Pacific Coast, introduced in May, 1989, met a worse fate. Designed by a joint team of Honda automotive engineers in Japan and marketers in the U. S., the Pacific Coast has no exposed engine parts. Instead, its working innards are enclosed much as they would be in a car. With an ultrasmooth ride and auto-like instrument panel, the Pacific Coast was aimed at first-time bikers who were willing to spend $7,698.

> Critics panned the Pacific Coast as little more than a two-wheel Accord. Honda has cut its price to $6,500

Honda spent about $3.5 million, or 33% of its advertising budget, promoting the Pacific Coast last year. But critics panned the bike as little more than a two-wheel Accord. Only 1,000 Pacific Coast models have been sold since the introduction. Now, Honda has cut the price to $6,500.

Aside from scaling back on prices—the new CB-750 will sell for $4,000—Honda is working harder to increase its sales. It now offers free rides in shopping malls, sponsors races, and picks up the tab to train Honda buyers at Motorcycle Safety Foundation centers throughout the country.

There are signs that things may be turning up. The Marysville plant has restarted after a near shutdown two years ago. Meanwhile, demand has nowhere to go but up. Industrywide unit sales, which hit 332,000 in 1988, rose to 334,000 in 1989. "Clearly, we have gotten to the bottom," says Kenichi Koyama, senior vice-president of the motorcycle division.

To crawl back from the abyss, Koyama says that Honda will try to get more Americans to use motorcycles as a viable alternative to cars, as many commuters do in Europe and the Far East. That's why the company has updated the affordable CB-750 and why it's sticking with the Pacific Coast. For the first time in years, economic and political trends may be on Honda's side. Increased traffic jams, rising fuel costs, and pollution concerns are all working to Honda's advantage. No wonder the company is looking ahead. What's in the rearview mirror isn't pretty.

By Stephen Phillips in Marysville, Ohio

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STRATEGIES

CAN CARRIER CORP. TURN UP THE JUICE?

The heating and air-conditioning unit is dragging UTC down

At a $20 billion conglomerate, if it's not one thing, it's another. The good news at United Technologies Corp. is the turnaround at its long-stalled jet-engine subsidiary, Pratt & Whitney. The bad news is the chill at UTC's heating and air-conditioning subsidiary, Carrier Corp. Carrier accounts for more than 20% of UTC's revenues, and it's dragging the company down. A Carrier writedown in June held companywide income growth to just 1.2% in the first half; without the charge, UTC's income would have jumped 10.5%.

That's not the sort of performance Chairman Robert F. Daniell likes. Since taking the top slot in 1986, Daniell has been revamping Hartford-based UTC, spinning off more than $1.5 billion in assets, and cutting a total of nearly $600 million in costs. Now, he's hoping that a similar combination of cost-cutting, refocusing, and a change in Carrier's top management will revive the company. He has sold off such unrelated Carrier operations as a trout farm and a dumpster business. He has cut more than $100 million in overhead during the past five years. By next year, more than 90% of Carrier's North American revenues will come from newly designed products that the company hopes will set it apart from competitors. And on Aug. 27, William A. Wilson will take early retirement after six years as president.

Problem is, Carrier may be dressing up for a dance that's already winding down. Just as the company, based in Farmington, Conn., is polishing its image and product line, the U.S. market for heating and air-conditioning equipment is falling fast. At the same time, rivals have been spending big to launch flashy new products of their own, taking advantage of Carrier's sluggishness. The likely result: more tough times ahead. "We're kind of gasping for breath," says UTC Executive Vice-President George A. L. David, who oversees Carrier and UTC's Otis Elevator Inc.

It's been a tough fight even to get some breathing room. Carrier's tired product line hadn't seen big change for a decade, and costs were as much as 10% higher than the competition's. Among dealers it had a reputation for poor quality and service. Thomas R. "Doc" Rusk, chairman of Doc Rusk Heating & Air Conditioning in Cincinnati, says Carrier's portion of new equipment sales at his company has slid from 70% in 1987 to about 46% today. Only Carrier's might a the country's No. 1 air-conditioning and heating company, with 12% of the world market, carried it along.

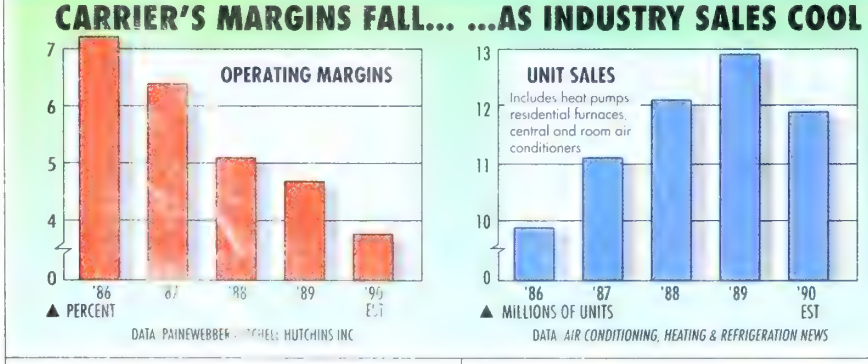
NEW LOOK. Wilson, who moved to Carrier after four years at Otis, spent most of his time just trying to put the company on an even keel. He slashed Carrier's white-collar work force by 30% and began revamping its product line. More than 75% of the company's 1990 sales in North America will come from new or redesigned products. And Carrier has increased spending on research and development by an additional 35% in 1990, to $90 million.

One new residential furnace, the Tech 2000, produces hot water as a byproduct, cutting household energy costs by 45%. A home air conditioner makes one-fourth the noise of traditional models. Engineers are also developing units that cool offices without releasing ozone-depleting chlorofluorocarbons. While many of the new products are pricier than the models they replace, their energy savings can more than make up the difference.

To get a manufacturing edge on competitors, Carrier is spending $100 million to design and build a new compressor. Many U.S. manufacturers buy from Ja-

PHOTOGRAPH BY SETH RESNICK - [illegible]

DANIELL: CUTTING COSTS, REVAMPING MARKETING, AND TRYING TO UPDATE THE PRODUCT LINE



)an what amounts to the heart of an air-conditioning unit. In 1991, Carrier will begin building updated rotary compressors in a new automated factory in Arkansas. The new compressor, which has no pistons, is quieter and more efficient than conventional models. It also uses fewer parts—an average of 55 instead of 00. Thanks to automated manufacturing, time needed to machine the key component will slide from 10 minutes to 5 seconds. "If it's not a home run, it's a long ball," says David.

Besides manufacturing and product development, Wilson's replacement will have some work to do on the marketing front. Competition has turned much of the air-conditioner market into a business in which rivals duke it out on price. Says one commercial developer who buys from all the major companies: "The only difference is which of their boxes rusts out the most." To fight such perceptions, the company is trying to position Carrier as a high-margin luxury brand, while using its Payne label to battle competitors on price.

Institutional investors are heartened by the developments at Carrier. That's despite a lackluster stock performance for UTC, whose shares have fallen to around 50 after hitting a 52-week high of 62½ shortly before the second-quarter earnings announcement. "They're doing all the right things," says Michael Stuart, an analyst at Cigna Corp., one of UTC's largest shareholders. But Carrier's rivals haven't been standing still. Last year, York International Corp. beat the industry to market with a commercial air conditioner that reduces potential ozone damage by 98% by using a safer

HOW JAPAN IS BEATING THE OTHERS COLD

The tale has an all-too-familiar ring. U. S. manufacturers of this product long controlled its world market. They invented the snazziest new models. And their sheer size dwarfed rivals across the sea. Cosseted by a home market that was the world's largest, they could ignore foreign consumers and competitors. Then, those foreign competitors turned up with models of their own that were cheaper, better made, and more efficient.

This time, though, the products in question aren't cars or television sets but air conditioners, where U. S. makers have frittered away most of their worldwide edge. Major producers such as Carrier, Lennox, and Trane failed to jump into what is now the largest market in the world: Japan. And now these companies must scramble to amass the technology and the sales knowhow to take on the Japanese in export markets. "It's daunting," says George A. L. David, the United Technologies Corp. executive vice-president who oversees UTC's Carrier Corp. unit.

NOISE OUTSIDE. U. S. manufacturers can no longer count on domestic growth to cover their export woes, because the North American market is likely to be a dud for the next five years. The Far East and Europe expect sales increases in the double digits for the foreseeable future. Ominously, a distinctive technology used in the Japanese market appears to be catching on in Europe, putting U. S. makers on the defensive there, too. "That makes the Japanese very tough," says Joseph B. Hunter, president of Applied Systems International, a unit of air-conditioner maker York International Corp.

That's ironic, since U. S. manufacturers invented the technology, called the ductless split, in the 1960s. This type of central air-conditioning system, used in homes and small commercial applications, puts the noisy motor outside and pumps refrigerant indoors, where a fan recirculates and cools the house air. To cool more than one room, the system pipes the refrigerant to additional fans instead of pushing chilled air through ductwork.

Even though ductless splits cost less to install than central air conditioners and are quieter than room units, U. S. manufacturers balked at spending the research and development money needed to bring the technology to market. Too bad: While the U. S. now accounts for 37% of air-conditioning sales worldwide, Japan accounts for 38%, or $8 billion—mostly ductless splits. Carrier Corp., which boasts that it is the U. S. leader in Japan, has less than 1% of that country's market.

One U. S. company, Burnham Corp., imports Japanese systems for sale in the U. S., where ductless splits are still largely a curiosity. But the ductless design is making such systems increasingly popular in Europe, since they can be installed in older buildings without extensive renovation. And the Japanese already have a 55% market share in the Far East—half of it ductless splits—compared to 22% for U. S. companies. Concedes Donald W. Munson, president of Lennox Industries Inc.: "They do have the expertise."

JAPANESE AIR CONDITIONERS—CHEAPER AND QUIETER—ARE NO. 1 IN THE FAR EAST MARKET

Carrier may be one of the few companies able to make a go of it in Japan. After World War II, it held more than 90% of the country's air-conditioner market, until underinvestment allowed its dominance to wither. In the past year, the company has doubled its R&D staff, to 40. And it's spending $30 million a year on technology. "We're pouring on the kerosene to develop the ductless system," promises outgoing Carrier President William A. Wilson. That's fine. But unless Carrier and other U. S. makers are willing to pour money into technology, marketing, and service around the world for a long time to come, they may end up getting burned.

By Todd Vogel in Hartford, with Chris Perry in Tokyo

Ten of Europe's toughest critics awarded Wyse their top prize
Over 3 million even tougher critics awarded us their busines

The Wyse Model 3225, winner of Europe's CeBIT award for design excellence. Novell certified as a network server, this 25 megahertz 386 runs today's demanding business software with brisk efficiency.

[1]Source: IDC 1989 Terminal Census

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The world's largest computer exposition is CeBIT, held in Hannover, Germany. It is the premier international showcase for the latest and finest computer products from around the world. And in 1990, the European computer experts who judge at CeBIT awarded their top **THE WORLD IS GETTING WYSE.** honor for design excellence to a Wyse personal computer, our Model 3225.

Several PC brands are better known than Wyse to the world at large. But it isn't particularly surprising that one of ours was selected for this prestigious award. Wyse design expertise has been winning a following among computer professionals for nearly a decade. And today, we have an installed base of over 3,000,000 terminals and personal computers.

Our design goal always is to add value. The ingenious design of our terminals, for example, gives them more features, styling and ergonomics than the competition. For less money. As a result, Wyse is the largest independent maker of computer terminals.

Similarly, our new family of UNIX multiprocessor systems offers better price/performance ratios than any similar line. Plus the investment protection of expandability.

You'll find such value reflected throughout our family of PCs, as well. All are extensions of the design philosophy and capability honored by the CeBIT judges. To learn more about their winning ways, just call 1-800-438-9973.

WYSE

1 800 GET WYSE

refrigerant. And trendsetter Lennox Industries Inc. has boosted R&D by 50% in the past five years. "They're just catching up to the products we're taking out of service," boasts Donald W. Munson, Lennox' president.

And despite the product-design changes, Carrier still must improve quality and service, dealers say. R. Craig Mann, president of dealer Ralph Mann & Sons Inc. in Ansonia, Conn., says that two years ago, 50% of his commercial sales went to Carrier. This year, he'll sell none of the products. He stopped pushing Carrier's commercial line after repeated equipment breakdowns and notices from the factory on product problems. "They were a big disappointment," Mann says. Carrier says it reworked the product involved, reducing the failure rate by 75%. Nevertheless, in a move hardly calculated to improve its ties with dealers, Carrier has opted to sell most of the distributors it owns in the U. S. The addition of a new middleman is likely to put more distance between the manufacturer and its retailers.

Compounding Carrier's troubles is the sluggish U. S. economy. Housing starts hit an eight-year low in July, construction spending is flat, and new-home sales have plunged 10.1% from a year ago, slicing demand for Carrier's new systems by 15%. The commercial segment doesn't look much better. A vastly overbuilt office and commercial real estate market has cut sales in 1990 by as much as 30% in some segments.

JAPANESE THREAT. Carrier's best bet may be to scare up new sales in the $13 billion overseas market, which accounts for 39% of sales. The company has a dominant market share in Europe, where profits have grown at a 22% compounded annual rate since 1982. But formidable Japanese competitors such as Matsushita and Hitachi Ltd. are pushing into the European market. Japanese manufacturers already dominate the world's fastest-growing market, the Far East, where they rake in more than 55% of sales, compared with only 22% for U. S. companies. Carrier has less than 1% of the $8 billion Japanese market. Only recently has it begun to make the specialized air-conditioning system demanded in Japan, and it is plunging $30 million into R&D and a new research facility over the next two years to create new models for the market (page 79).

With daunting changes at home and abroad, Carrier will have to rely on cost-cutting to salvage the bottom line. UTC's David concedes that a company turnaround and big earnings from new markets will take a few more years. That's optimistic at best. Carrier is likely to put a chill on UTC's profits for some time.

By Todd Vogel in Hartford

RETAILING

WILL 'THE NORDSTROM WAY' TRAVEL WELL?

The chain is pressing ahead with plans for a national empire

As shoppers drifted languidly from store to store on a recent midsummer weekend at Garden State Plaza in Paramus, N. J., a moving crew at one end of the mall was busy at work. The clatter of people assembling clothes racks, arranging furniture, and unpacking boxes of merchandise echoed through the newly finished store. Still to come were the trademark piano, the unfailingly polite salespeople, and a swanky gala dinner the night before the Sept. 7 grand opening. The Nordstrom blitzkrieg is coming to the Northeast.

Nordstrom Inc.'s new store in Paramus is its first sortie into the important New York area market. And it marks a big step in the Seattle-based company's ambitious effort to open 20 new stores in 13 states in the next five years. Nordstrom plans to bring its mix of solicitous service, valet parking, and soothing piano music to Chicago, Minneapolis, Denver, and Boston. At this rate, the once-modest chain of shoe stores will become a retailing giant, with 80 stores and sales of more than $5 billion by 1995.

DARK CLOUDS. But all may not glitter when Nordstrom throws open the doors to its new stores: A raft of troubles is trailing the retailer. Worries about recession have depressed consumer spending and hurt many retailers. A drop in Nordstrom's earnings has pushed its stock down sharply, from 37¼ in July to a recent 23¾. What's more, Nordstrom is still entangled in a bitter dispute with the union that represents its Seattle sales force. The retailer settled charges that it tried to undermine the union with the National Labor Relations Board on Aug. 17, but it still faces lawsuits from the union, shareholders, and disaffected employees. And the union says it will picket the store openings.

Despite all the bad news, many industry analysts are betting that Nordstrom's expansion will succeed. "They're going to make the other stores look sick if they can import their culture and their lines of distribution," says Marvin J. Rothenberg, a retail consultant in Fair Lawn, N. J.

One thing working in Nordstrom's favor is that it is entering markets where the other retailers are none too healthy. At Garden State Plaza, for example, Nordstrom's sole upscale competitor is Macy's. "We see a market with reall

FOR NORDSTROM, GRAND OPENINGS...

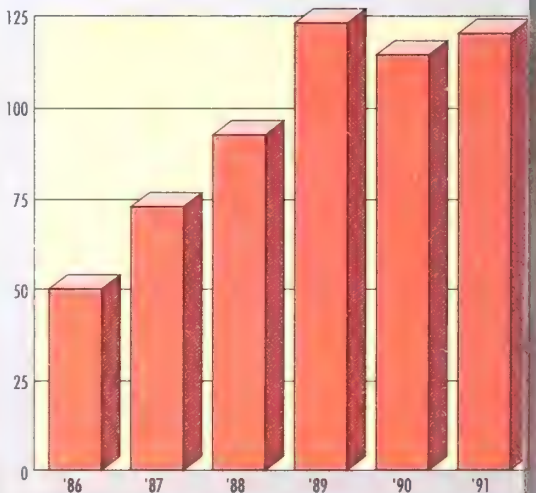
Nordstrom operates 61 stores in six states and plans to o 18 more in five years. Four stores are opening in 1990:

Location	Mall	Opening
SANTA BARBARA, CALIF.	PASEO NUEVO	Aug
PORTLAND, ORE.*	LLOYD CENTER	Aug
PARAMUS, N.J.	GARDEN STATE PLAZA	Sep
BELLINGHAM, WASH.*	BELLIS FAIR	Oc

*Replaces existing store

DATA: NORDS

...MAY RENEW EARNINGS GROWTH



DATA: COMPANY REPORTS, SMITH BARNEY, HARRIS UPHAM & CO.

only one major department store," says James F. Nordstrom, one of three family members who holds the title of co-chairman. "It's appealing to us."

Business has been good for the Macy's store in Paramus, but the financial woes of its parent and other big retailers such as Federated Department Stores Inc. may hinder their ability to respond to a vigorous new competitor—in New Jersey or elsewhere. "In a down market, the sales of a new Nordstrom's are going to come out of the other major department stores' hides," says Thomas Rauh, a retail consultant with Ernst & Young.

Macy's claims the arrival of Nordstrom will actually boost its sales. But if history is any guide, it may be whistling past the graveyard. In 1988, Nordstrom chose the Washington surburb of Tysons Corner, Va., for its first East Coast foray. Its huge success there helped knock Garfinckels, a *grande dame* of Washington retailing, into bankruptcy. And when Nordstrom expanded into California in 1978, it grabbed almost a third of the market within 10 years.

Nordstrom's legendary service has been the key to winning customers in new markets. Salespeople commonly write thank-you notes or make home deliveries to customers. Each store employs a concierge stationed near the entrance to help customers with special requests. Such amenities have won Nordstrom loyalty and affection. In Seattle, it's common to see bumper stickers that proclaim: "I'd rather be shopping at Nordstrom's."

Transplanting that service-oriented culture to the Northeast may not be easy. In Paramus, Nordstrom is having no trouble attracting workers by offering an hourly wage of up to $9.50 plus commission—well above the industry standard of $6 to $7. But training new recruits to be unerringly courteous is another matter: Nordstrom's high standards have resulted in an intense work environment and frequent turnover at other stores. So the retailer is relying on staffers well-versed in the "Nordstrom way": Two hundred of the 800 employees in the Paramus store will be permanent transfers from other Nordstrom branches.

UP SHOP IN PARAMUS: PART OF A 20-STORE EXPANSION STRATEGY

The breakneck pace of its planned expansion means that Nordstrom will be shuttling scores of employees across the country and setting up shop in several unfamiliar markets over the next few years. But Nordstrom says its decentralized structure will cushion it from the turmoil that has hit other retailers that have undertaken similar growth: Store managers are given the latitude to make hires and buy merchandise to fit their own markets.

One thing Nordstrom may not be able to avoid is more labor trouble: Its fractious union, Local 1001 of the United Food & Commercial Workers Union, has accused it of not paying salesclerks for extra duties such as home deliveries and company meetings. Washington State's Labor & Industries Dept. ruled in February that hourly employees must be paid for such work even if they also receive a commission. Now, the union is suing Nordstrom to force it to comply nationwide: "We think they're still in violation of the law in most every state," says Joe Peterson, president of Local 1001. Nordstrom insists that the ruling affects only Washington State.

"MR. JIM": NOT WORRIED ABOUT LABOR DISPUTES

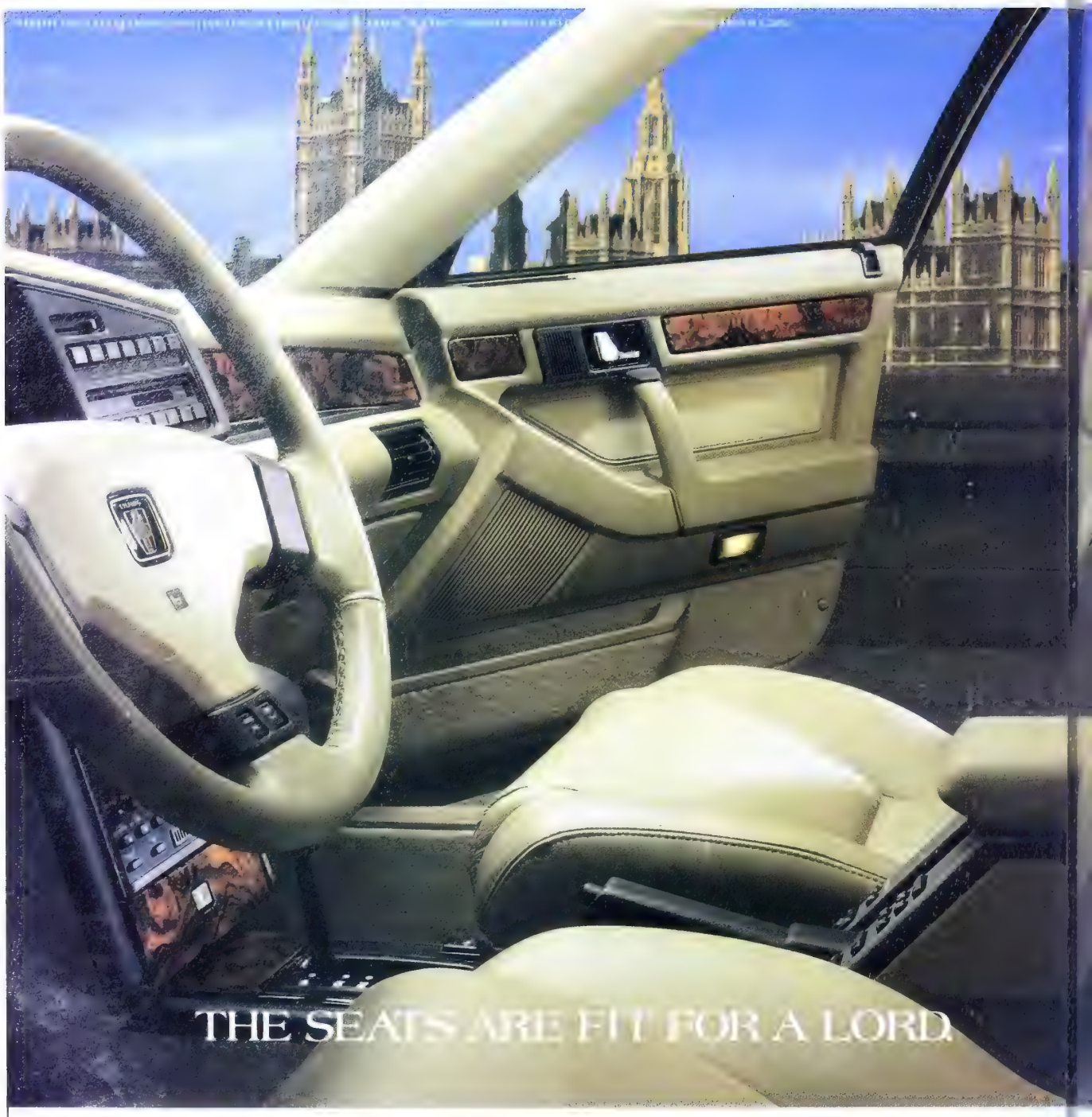
The retailer says it is unruffled by the threat of pickets: Its well-heeled customers may not be accustomed to union leafleting in shopping malls, but they're often not very sympathetic toward unions, either. Says James Nordstrom, who is called "Mr. Jim" by employees: "It doesn't seem to affect anything. I don't think the customers really care." He claims the protests are simply a way for the weak union to bolster tenuous support among salespeople.

'DIFFICULTIES.' But if Mr. Jim sloughs off labor troubles, he admits more concern about Nordstrom's earnings. Weak consumer spending and poor inventory decisions have cut into its bottom line. After five years of annual sales growth of more than 20%, Nordstrom had trouble adjusting to a drop in spending last summer. Store managers found themselves overstocked and resorted to markdowns; then, they overcompensated and cut back on inventory too much. Nordstrom's earnings dropped 7% in 1989, to $115 million, even though sales grew 14.7%, to $2.7 billion. Earnings slid an additional 20% in the first half of 1990, to $49 million on sales of $1.36 billion.

Many analysts and investors say Nordstrom has solved its inventory problems and is already on the rebound. "It's no secret they've gone through some difficulties," says Anne Delon, a retail analyst with J&W Seligman & Co. "But the numbers are turning in the right direction." The company's balance sheet is certainly robust enough to finance the expansion: Nordstrom carries less debt than that of many other big retailers. But despite its audacious bid to be a national power, Mr. Jim is still hedging his bets. The plainspoken executive says if earnings don't improve, he will curtail Nordstrom's plans. "We may go from four stores a year to three," he says.

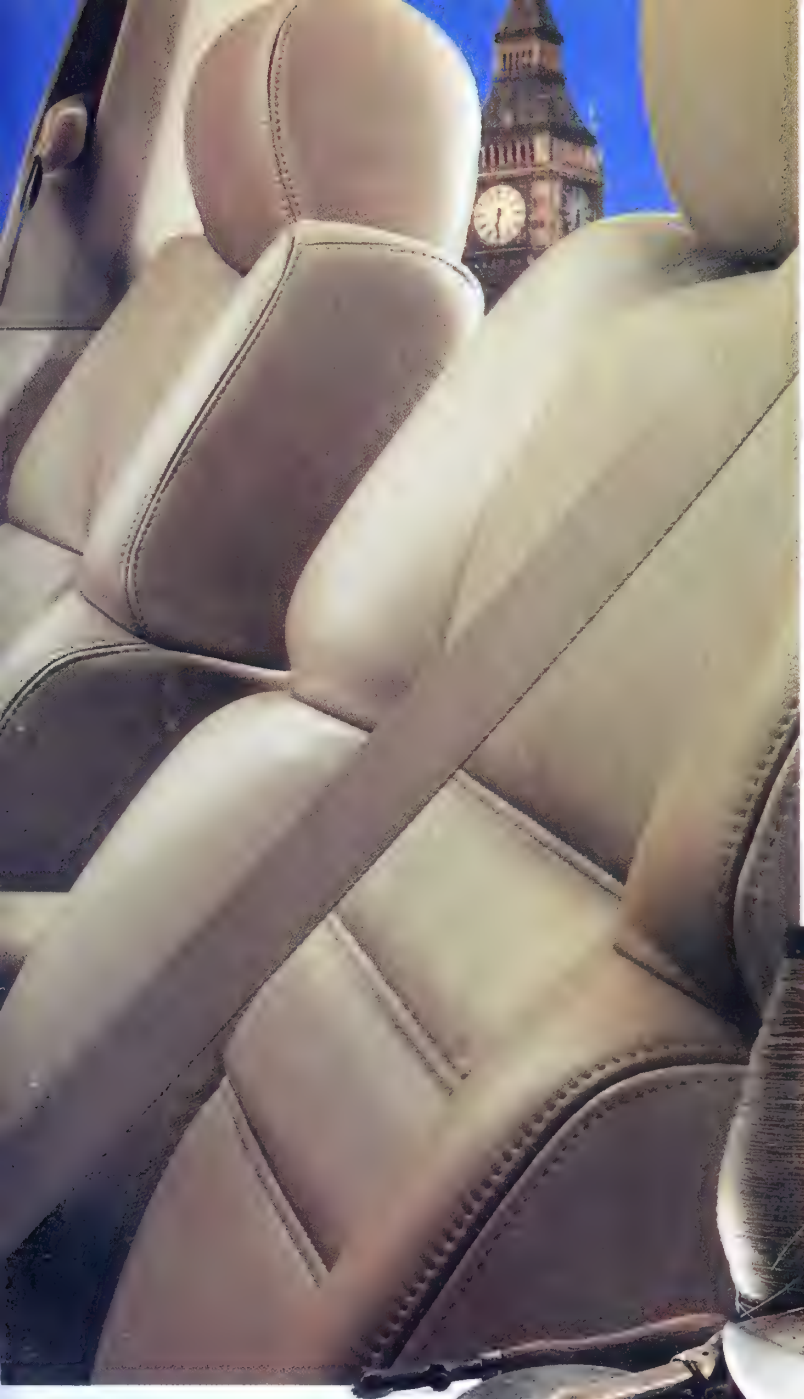
It's not clear, either, just how harried New York area shoppers will respond to Nordstrom's brand of coddling. But already, its approach is making waves: In middle-brow Paramus, the Garden State Plaza will soon offer valet parking.

By Dori Jones Yang in Seattle and Laura Zinn in Paramus, N. J.



STERLING

MADE IN ENGLAND BY ROVER CARS



The Connolly secret includes mimosa bark and myrobalan nut in the tanning process It also includes time-honored craftsmanship All to promise a custom fit as the supple leather molds to the driver

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THE QUESTION FOR INVESTORS: IS IT TIME TO BUY?

As the markets fall, bargains in bank, high-tech, and small-cap stocks have begun to appear

In the Persian Gulf, where multinational forces are joining to confront Saddam Hussein, it has been three weeks of bluster and confusion. For financial markets here and abroad, however, the battle already has been joined—and the wreckage is mounting. The Dow Jones industrial average has tumbled beneath 2,600, and the list of casualties is long: airline and bank stocks, computer company shares, and small-company issues of every description. The market for new issues, lively a few weeks ago, is a shambles. And junk bonds are looking junkier than ever (box).

But as in all times when the markets fall into an extended funk, the most critical question facing investors can be summed up thusly: "Is it time to buy?" For speculators, day-to-day volatility will continue to be wrenching. But patient, long-term investors will find plenty of bargains amidst the chaos. "I would advise investors to search through the wreckage," says Byron R. Wien, U.S. investment strategist at Morgan Stanley & Co. "A lot of stocks have been hurt very badly in the market, and some of them are attractive values."

TEMPTING. Of course, buying at a time like this requires steady nerves. When the news from the Persian Gulf is gloomy, the market will continue to lurch. "You musn't get mesmerized by the tape and the headlines," warns Michael Metz, a portfolio strategist at Oppenheimer & Co. Metz suggests cautious forays into stocks of companies that can thrive in a recession and have strong balance sheets. He likes electric utilities, drug and paper stocks, and sound but beaten-down companies such as IBM, with its high yield and low price-earnings ratio.

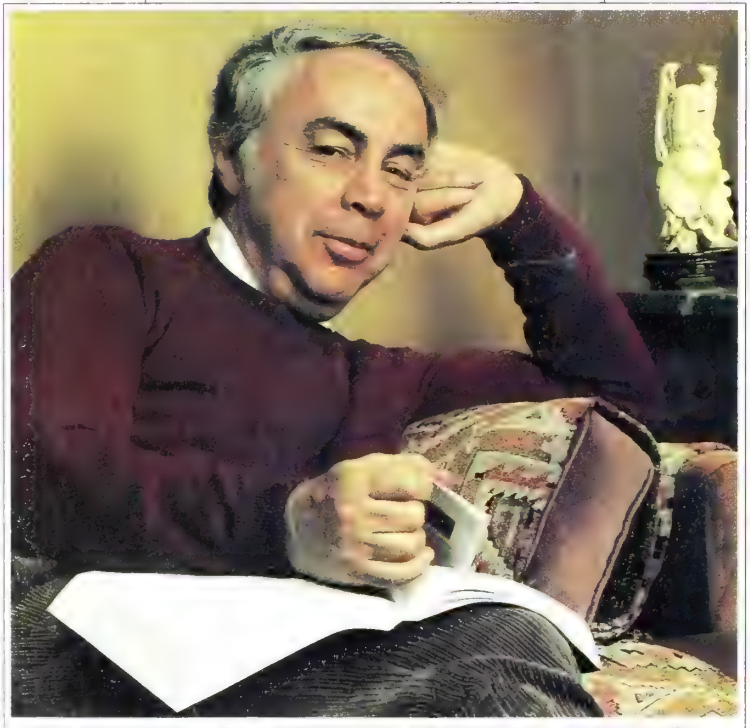
Other technology stocks also have declined to tempting levels. "They're all 30% to 40% off their highs," notes Michael H. Sherman, chief investment strategist at Shearson Lehman Brothers Inc. His picks include Adobe Systems, Chips & Technologies, Applied Materials, and Adaptec.

The really venturesome might try sniffing at banks. Concerns about credit soundness already hammered bank shares even before the Iraqi land grab. The risk now is that a recession would exacerbate loan problems, with the Fed unable to lower rates because of inflationary pressure from the rising price of oil.

Sound and shaky banks alike have seen their shares suffer as a result. Ronald I. Mandle, a bank analyst at Sanford C. Bernstein & Co., favors once-troubled BankAmerica Corp., the venerable San Francisco bank holding company. Mandle notes that BankAmerica already disposed of many of its bad loans in th 1980s. Even if the California real estat market worsens, he theorizes, Bof should weather the storm better tha other big California banks.

Banks with sound loan portfolios ar also worth a close look. At Merrill Lync & Co., bank analyst Judah Kraushaa likes NCNB Corp., based in Charlott N. C., and Banc One Corp. in Columbu Ohio. Both superregionals have prove credit quality above the industry nor and are adept at trimmin costs. Carole Berger C. J. Lawrence, Morga Grenfell Inc. favors Ke Corp in Albany, N. Y. Sh notes that this ban doesn't have much exp sure to commercial real e tate or LBO loans. Instea it focuses on lending midsize companies and retail trade in small town

For aficionados of ou of-favor stocks, this m also be the time to take fresh look at the ubiqu tous overseas mutu funds. Early in the yea overseas bourses ro handsomely, taking th funds along with them, b cause of the opening Eastern Europe. But t oil price shocks, and resu tant fears of inflatio have relentlessly pur meled foreign markets. E ery major Continent bourse hit new lows f the year on Aug. 21. Stocks in the onc sizzling Frankfurt market, for examp have fallen nearly 10% in just a week time. Stocks in Vienna are down 2 since July 31, and Japan's woes are co tinuing. Japanese stocks, which ha suffered since January, are down 3 since yearend as interest rates ha climbed. "People are really starting give up," says Edwin C. Merner, direct of Schroder Investment Manageme (Japan) Ltd.



METZ: "YOU MUSN'T GET MESMERIZED BY THE TAPE AND THE HEADLINES"

On these shores, the tocks that have fallen the ıost—and may well stand ɔ enjoy the greatest in-reases—are small-capital-zation stocks. At the end f July, the Russell 2000 ıdex of small stocks had allen almost 7% from the tart of the year. By con-rast, the Standard & oor's 500-stock index was p almost 1%. In August lone, the Russell index as dropped more than 3%, vs. a 10% decline for he S&P.

EEKING NICHES. Recession ears are one reason the mall stocks have suffered o much. The conventional visdom is that small-cap tocks do better at the tart of an economic up-urn and are ill-prepared fi-ancially to cope with a lowdown. But some inves-ors feel that the sell-off ıay have created some op-ortunities. "We've been employing ur cash in an aggressive way in the ast five days," says Charles Royce, ıanager of the Pennsylvania mutual und, which specializes in small-compa-y stocks. "There are tremendous, tremendous price opportunities. Many stocks are off 30% or more since last month."

The byword among small-cap investors has been "niche"—seeking out companies with strong franchises in sharply defined markets. Royce likes Deb Shops Inc., a chain of women's apparel shops based in Philadelphia. He also likes Consolidated Stores Corp., a retailer of close-out merchandise. Deb stock has fallen some 35% since year-end. Small-cap fund manager Ralph Wanger, of the Chicago-based Acorn Fund, favors International Game Technology, which makes coin-operated video games; Carnival Cruise Lines; and Rouse Co., which builds and owns shopping centers and office buildings. He says the Rouse stock has been battered far below the value of its holdings. At its current share price, investors are paying 50¢ on the dollar for the Rouse real estate portfolio.

Buying stocks will take guts as long as Hussein continues to dominate the market. But once the Butcher of Baghdad loosens his grip on the Middle East, investors who buy now will have special reason for joy.

By Gary Weiss and John Meehan in New York, with bureau reports

SOME STOCKS THAT BECKON FROM THE WRECKAGE

Stock	Price decline (%) 7/31-8/22	Comment
AMAX	10%	Aluminum company extraordinaire; a strong balance sheet
AMR	18	American Airlines' parent; still healthy; earnings should grow handsomely
ARCHIVE	20	Makes computer backup systems; an industry leader with attractive growth prospects
CARNIVAL CRUISE LINES	25	This travel company should prove resistant to oil shocks
WALT DISNEY	8	Top leisure company; excessively penalized by recession fears and oil price increases
KEYCORP	8	Sound credit quality; strong earnings momentum for this upstate New York bank
ELI LILLY	15	Drugmaker's stock beaten down by bad publicity concerning Prozac antidepressant
ROUSE	8	Real estate company whose portfolio may be 50% undervalued
NCNB	11	A bank holding company with sound credit quality; aces at cutting expenses
SCOTT PAPER	6	Paper company with sound fundamentals and a strong franchise in its field

DATA: BW SURVEY OF ANALYSTS AND MONEY MANAGERS

FOR CHEAP THRILLS, HERE'S A HIGH-YIELD HAIR-RAISER

The junk-bond market has greeted the Mideast crisis with all the warmth it might afford a rabid dog. Junk prices have tumbled as investors have dumped high-yield bonds for fear that heavily indebted issuers can't weather an oil-induced recession coupled with rising interest rates. Even the darling of Wall Street, cash-flush RJR Nabisco Inc., has seen its junk slump: The company's 17% paper, due in 2007, has dropped $100 in a month, to close at $845 on Aug. 22.

But just as with stocks, the junk retreat offers opportunities to grab bargains that should rebound later. Consider Comdata Holdings Corp., a funds-transfer company whose debt is 92% of capital. Standard & Poor's Corp. rates it a cellar-dwelling CCC, and its 13.5% bonds sell at a discount—$750, yielding almost 18%. Joseph C. Bencivenga, head of junk research for Salomon Brothers Inc., thinks the market unfairly penalizes Comdata because some of its customers are trucking companies—a cyclical business that suffers in a recession. But economic worries haven't harmed Comdata, which has been winning new business: Cash flow surged by 35% in 1990's first half, compared with the same period in 1989.

There are even interesting—if white-knuckle—plays among cyclical companies. USG Corp., which makes wallboard for the housing industry, has seen its 13.25% bonds battered. They now go for $510. The company's biggest upcoming problem is a $65 million maturity on bank debt due next year. However, Frank V. Columbo, high-yield research chief at Dillon, Read & Co., believes that USG will get a reprieve from the banks. "They loosened capital-spending restrictions on USG so it could build a plant in Belgium, and they probably will extend the maturity," he says.

BENCIVENGA FAVORS COMDATA'S CCC BONDS

EASY EXIT. The truly fearless might try companies in Chapter 11. Take Lomas Financial Corp., a mortgage company whose bonds go for around $160. Leigh Walzer, an analyst at R. D. Smith & Co., predicts that Lomas will exit bankruptcy proceedings by June, 1991—and that its bonds will double in value by then. "This is as clean a bankruptcy as they come," he says. "It doesn't have a lot of litigation involved." While Dallas-based Lomas' business seems too closely linked to the slumping real estate industry, Walzer reasons that its home turf of Texas saw the worst during the mid-'80s oil slump and now will come back. With Lomas, as with other junk, the key is being able to ride out the rough times before the good times come around again.

By Larry Light in New York

INSURANCE

TRAVELERS IS DRAWING ITSELF A TORTUOUS ROAD MAP

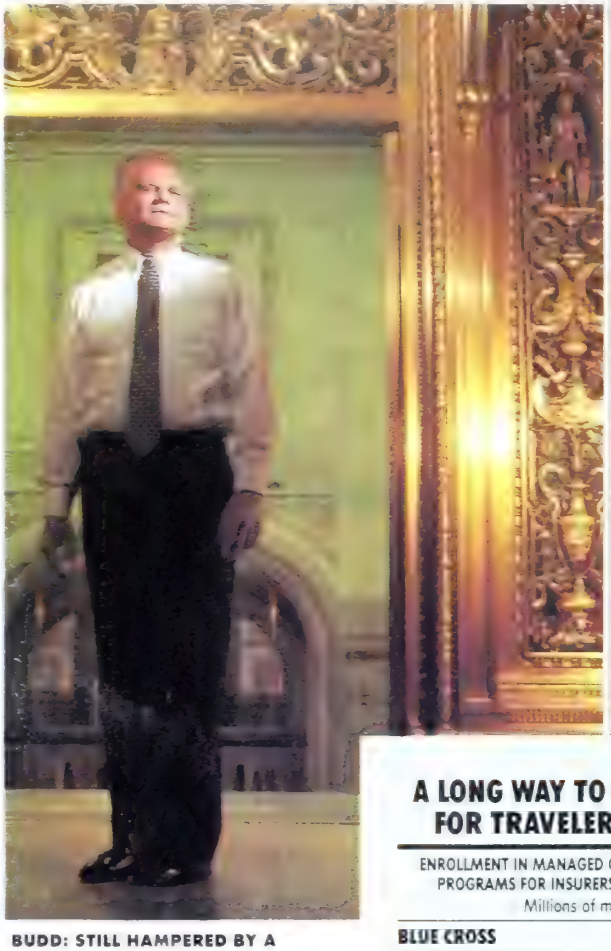
Its surprising strategy to get growing again: Expand health care

Edward H. Budd's odyssey has been particularly painful. His attempts to broaden Travelers Corp. beyond basic insurance operations have led to big declines in operating earnings—down 12%, to $319 million last year. Bad real estate investments in the Southwest and slumping property-casualty premiums will shave the bottom line into the foreseeable future. The Travelers chairman is pulling his company out of home and auto coverage in nine states, with more pullbacks likely elsewhere. The Hartford-based insurance giant's stock has tumbled from $49 per share in January, 1987, to $25 now.

So Budd is trying something else: expanding Travelers' health care business. He plans to spend $1 billion by 1995 to develop a cost-conscious network of doctors and hospitals for employee medical plans. This would make so-called managed care the largest source of revenue for Travelers. The insurer figures it can triple its 2% market share within 10 years. That would boost the company's managed care stake from about 16% of its $12.5 billion revenues in 1989 to at least 40% by decade's end. Managed care, says Budd, "is the highest growth opportunity."

Is it? Travelers faces seasoned competitors who offer more extensive geographic coverage. "They're trying to build what we already have," says an executive at a large rival insurer. Beyond that, managed care's explosive enrollment growth during the 1980s—about 20% yearly, which gave it one-third of all employees covered by health plans—may have peaked. And Travelers' first steps have been hobbled by underpricing, computer woes, and personnel turmoil.

The big appeal of managed care is its promise to get health costs under control. Under traditional company health plans, employees visit any doctor they like and the insurer pays most of the bill, with few questions asked. Under managed care, employees either see doctors who work directly for a health maintenance organization (HMO) or see independent doctors who are on contract—a setup called a preferred provider network. Managed care physicians are obligated to keep costs down—for instance, by charging less and not ordering a full battery of tests for a patient. In return, they get more patients.



BUDD: STILL HAMPERED BY A SPOTTY NATIONWIDE NETWORK

Travelers aims to outdo rivals by offering a broader array of services, including preventive health programs such as drug counseling and workshops to help smokers quit. It is decentralizing operations to be closer t customers, setting up five regional o fices. The company also is plowing mor ey into a new computer system to im prove tracking of where clients' healt care dollars go, ferret out high-cos claims, and spot cheaper treatment alter natives. "Fundamentally, this is an infor mation business," says Joseph T Brophy, Travelers' president of mar aged care and employee benefits.

COMPUTER GLITCHES. Perhaps, but th fledgling computer system is strugglin with the elementary task of processin claims. The benefits manager of a larg New York client says claims processin for psychiatric care, emergencies, o anything beyond run-of-the-mill trea ment can be a major hang-up. "The aren't paying attention to the basics, says the manager. Travelers admits t isolated complaints, but says glitche will be fixed when a new compu er system is finally ready September.

There's no denying that Trav elers is playing catch-up. Wit 1.6 million enrollees, it ranks distant sixth among insurers pr viding managed care (table). Th biggest among multiline insurer is Cigna Corp. (3.6 million), whic provides health care for such ma jor companies as Allied-Signa Inc. The No. 1 provider, Blu Cross and Blue Shield Syster (15.5 million), is a household name that offers managed car programs in 47 states. The re sult: Travelers won only 174 o the 1,548 managed care account it bid on last year.

The stiff competition ha forced Travelers to underpric some contracts, which threaten to subtract more from profit than it adds to market share Competitors say that when the bid on contracts, they won't ac cept a projected profit margin o less than 1%—and the often charge as muc as 5%. But margins a Travelers on some larg accounts are less tha 1%, admits Alvin E Decker, Travelers' vice president for market ing. The margin for er ror is so narrow that, i some areas, Traveler may lose money. Oper ating earnings for HMO showed an $18 millio loss last year. Traveler claims it made a profi on preferred provide operations, although

A LONG WAY TO GO FOR TRAVELERS

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CIGNA	3.6
AETNA	2.5
METROPOLITAN	2.4
PRUDENTIAL	2.2
TRAVELERS	1.6

*Health maintenance organizations and preferred provider networks, including self-insurers

DATA: TOWERS PERRIN FOSTER & CROSBY, BLUE CROSS AND BLUE SHIELD SYSTEM

V I S I O N

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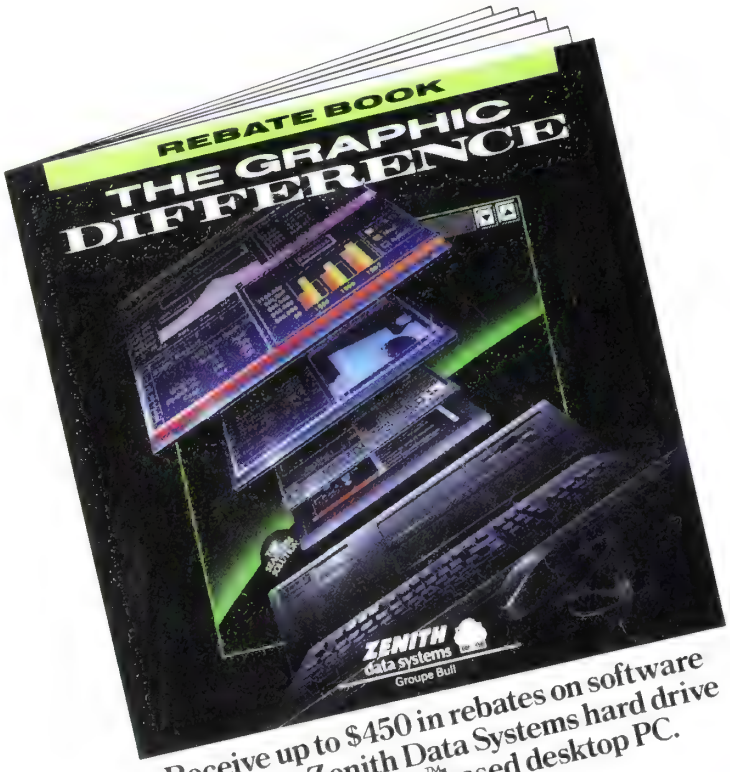

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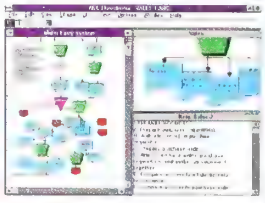

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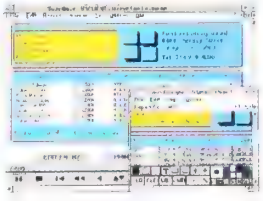

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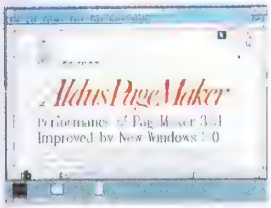

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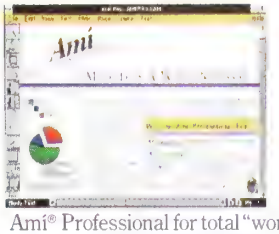

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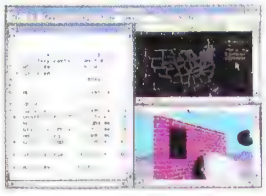

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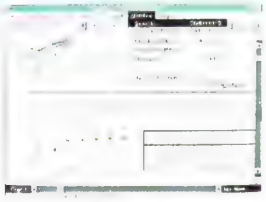

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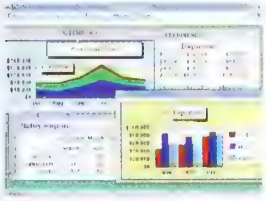

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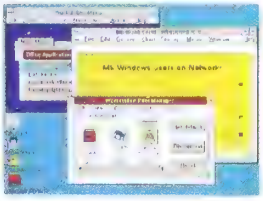

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won't disclose the numbers, because they are lumped in with those of traditional health insurance.

Travelers has had difficulty in the managed care arena almost from the beginning. The company suffered an expensive fiasco with HMOs. In 1986, Travelers paid $52 million for Whittaker Corp., a chain of 19 HMOs, which proved to be an administrative nightmare. Travelers ended up selling five of these HMOs for $1 each.

Some corporate clients are scared off by Travelers' spotty coverage around the country. U. S. West Inc., for one, opted for Metropolitan Life Insurance Co., with its extensive network of doctors in the Rocky Mountain area, which is the phone company's territory. Travelers' "market coverage just wasn't there," says Carol Hart, health care manager for U. S. West. Brophy promises to have more complete networks in place by yearend.

The company is trying to persuade the 50,000 doctors and 600 hospitals already in its network to sign new contracts by mid-1991 aimed at reducing fees still further. While Travelers says it expects to snare 90% of these, an executive close to

> HMOs and PPOs haven't trimmed health costs as much as expected—and 'a lot of companies feel burned'

the recontracting fears that the company may fall short of the goal by some 10,000 doctors.

Meanwhile, shakeups have roiled Travelers at the corporate level. The head of the preferred provider network has changed three times in the past five years, and 50 top executive jobs were reshuffled in the past two. Says one Travelers executive: "We crave some stability."

TOO LATE? Even if Budd straightens out the snafus, there's the concern that he may be entering the market after its apogee. Managed care's spectacular enrollment growth during the 1980s will level off to single digits, according to Shearson Lehman Brothers Inc. The investment firm projects 1990 growth between just 2% and 5%. One reason, says Shearson First Vice-President Mimi Willard, is that employers are meeting increased reluctance among workers to switch to managed care, which limits their choice of physicians and sometimes costs them more out of pocket. Perhaps more important is that managed care hasn't held down costs as promised. In 1989, HMOs cost companies an average $2,319 per employee, up 16.5%. That's not much lower than traditional health coverage, which averaged $2,600, up 20%, says the A. Foster Higgins & Co. consulting firm. Says William S. Custer, research director at the Employee Benefit Research Institute in Washington, D. C.: "A lot of companies feel burned."

To Travelers, though, there's no such skepticism. Managed care hasn't lived up to its cost-cutting promise because it's just getting started, says Brophy, who expects the growth rate to stay at the 1980s' pace: "We're going to grow like hell," he says. The insurer scored a coup in July, when it snagged one-third of the huge American Telephone & Telegraph Co. account. Travelers can only hope for more of the same if it is to nurse its bottom line back to health.

By Lisa Driscoll in Hartford

INVESTIGATIONS

COMMODORE VANDERBILT, MEET AHMAD BAYAA

The SEC says he cornered Southland Communications' stock

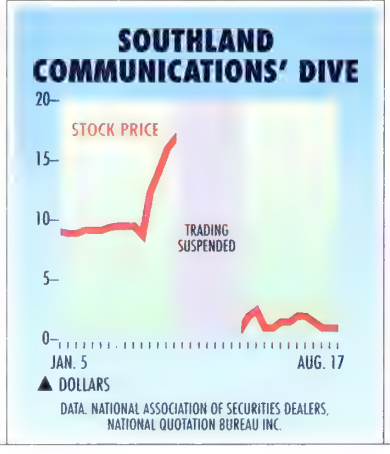
It sounded like the classic American success story. A young Palestinian flees a refugee camp in Lebanon and comes to Southern California with little more than a dream for a better life. He works his way through college by busing tables. He later starts his own business peddling telephone pagers and takes it public in 1987. By early 1990, his fledgling business, Santa Ana-based Southland Communications Inc., provides paging service to 48,000 customers under the name of National Paging Co. The company's stock trades as high as 17, making it worth some $40 million.

There's just one hitch. According to the Securities & Exchange Commission, Ahmad Bayaa created a lot of that value with smoke and mirrors. The 37-year-old president of Southland Communications, along with Atlanta broker Shaw Tehrani, masterminded an elaborate scheme to inflate Southland's stock price, the SEC charges. In a civil suit brought on May 14 in the U. S. District Court of the Southern District of New York, Bayaa and Tehrani are accused of manipulating the stock and violating basic SEC disclosure requirements. "If the allegations are proven true, these two people were the stock. There was not an open and free market," says Daniel R. Schnipper, senior counsel for the SEC.

Bayaa, who has denied any wrongdoing to the SEC, declined to comment on any of the allegations. Tehrani couldn't be reached for comment, and his lawyer declined comment.

As early as January, 1989, Bayaa and Tehrani began trying to manipulate Southland's stock by making prearranged trades to boost the share price, says the complaint, with the hope that a higher price would make it easier to raise money in a private equity placement. Bayaa wanted to sell stock to help pay for the acquisition of another paging company. By March, 1990, concerned that short sellers were descending on the financially troubled company, Bayaa and Tehrani had quietly assembled a network of 21 friends and relatives to buy Southland Communications stock through various brokers, according to the SEC. By April the two allegedly controlled 83% of the outstanding stock. Their motive, says the commission: to drive up the stock price in order to punish short sellers.

'OBVIOUS.' The scheme worked, but just for three short weeks. That's how long it took Southland Communications stock to soar from 8.75 to 16.75, and for the SEC to act. The SEC and the National Association of Securities Dealers halted trading for seven weeks in order to look into the extraordinary rise in price and volume, which had soared from 103,000 shares traded in February to 3.3 million in March. When trading resumed on May 23, not only had the stock been delisted by the NASD and traded as a pink-sheet



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stock, but it was down to 50¢ a share. It now trades at about 1.

The few public shareholders not implicated in the scheme have been the biggest casualties, but brokerages that allowed the Bayaa network to buy Southland on margin were also hurt. They're stuck with an $11.6 million bill. The big winners are the shorts who were selling the stock at between $8 and $9 a share and were able to cover their positions at $1.

The short sellers had been bearish on Southland since the beginning of the year. The company hadn't posted a profit in its fiscal 1989 quarters, and in its first quarter of 1990, which ended Jan. 31, it had lost $324,000 on revenues of $1.7 million. On top of that, it faced a lawsuit from Motorola Inc., filed in 1989, that said Motorola hadn't been paid for $5.6 million worth of pagers it sold to Southland. "It was obvious this company was going to go bankrupt," says Joseph L. Feshbach, one of the Southland short sellers. "I have never seen a paging company with our subscription base ever go bankrupt," counters Bayaa.

SANTA ANA HEADQUARTERS: MARGIN CALLS STUCK BROKERS WITH AN $11.6 MILLION BILL

'SELF-DEFENSE.' Mar. 3, 1990 was the critical day in the SEC complaint. In its 28-page civil suit, the SEC describes a scene in which Tehrani, infuriated over a report recommending short sale of Southland stock, threw his telephone through his office window. That's when, the regulators charge, he and Bayaa enlisted dozens of friends and relatives, including Tehrani's mother and stepmother, to buy Southland stock on margin to drive up the price. Tehrani even got one brokerage firm to agree not to lend Southland shares in Tehrani-controlled accounts to short sellers, says the SEC complaint. "It was an act of self-defense," says Sa[illegible] Petro, a broker who holds Southland stock but wasn't involved with the bu[illegible] scheme. Even though Petro got burned, he sympathizes with Bayaa. "You recognize you are under attack. What is your human response? You fight. I sure as hell would."

Ahmad Bayaa was intent on making a splash in the business world, say those who worked closely with him. His goal was to build his company into a paging empire. He says he hired an investment banker to find another small paging company for him to buy. Bayaa hired a corporate psychologist he had met on an airplane to give personality tests to help improve productivity among Southland's staff. In his office, he keeps a picture of himself shaking hands with financier Donald Trump. And Jesse Jackson officiated at his 1988 wedding at the swank Ritz Carlton Hotel in Dana Point, Calif.

A strong Southland stock no doubt helped Bayaa maintain his eye-catching lifestyle. So did borrowing heavily against his shares, say company documents. "His head was in the clouds," says one former Southland executive.

At one point last year, company documents show, Bayaa owed Southland $205,000. That prompted his older brother Ziad, Southland's chief financial officer, to slow down payment of Ahmad's company credit card bills to rein in his spending, say former Southland employees—which Ahmad Bayaa denies. Ziad Bayaa is not named in the SEC suit and declined comment.

Ahmad Bayaa's troubles may only be beginning. On June 14, FBI agents searched the company's one-story headquarters in a Santa Ana industrial park, confirmed Fred Reagan, an FBI spokesman in Los Angeles. He refused to comment on the purpose of the search.

> Tehrani, infuriated with short sellers, threw his telephone through his office window

RELIGIOUS PRINCIPLE. In the meantime, Bayaa and Tehrani's friends and relatives refuse to pay the margin calls made on their stock purchases, and the brokerage firms are left holding the bag. Suplee Reed & Co., a small Media (Pa.) broker, went out of business when it was unable to come up with $7.5 million in margin calls on Southland Communications stock, according to the SEC complaint. And Prudential-Bache Securities Inc. has filed a lawsuit against its customers who failed to meet $1.3 million in margin calls.

Bayaa's associate, stockbroker Tehrani, gave a novel defense for the failure to meet the calls, say SEC staff members. His clients who bought Southland stock couldn't pay margin because it would have violated religious rules banning the payment of interest during Ramadan, the holiest of Moslem holidays. Ramadan has come and gone, say the SEC investigators, but there has still been no payment.

Indeed, SEC regulators are spellbound by what they see as total disregard for federal rules on the part of Bayaa and Tehrani. There's nothing new about cornering the market for a stock; 19th century railroad tycoons such as Commodore Vanderbilt were known for snatching up their own companies' stock to drive off short sellers. But that was before strict laws outlawed the practice. In recent times, the SEC has uncovered very few cases of stock cornering. One exception: the SEC's still pending case brought last year against two brokers who are charged with cornering the stock of Chase Medical, a Miami health services organization. In this case, management was not charged in the cornering scheme. "What's even more startling is that Chase Medical got a lot of publicity, and here these people are back at it again," says Robert B. Blackburn, the SEC's assistant New York regional administrator.

Southland's business is limping along. Operating losses have risen from about $500,000 in the six months ended April 30, 1989, to $716,000 in the same period this year. Bayaa says the losses stem from an expensive new computer system that will make the company more efficient. The staff has shrunk from 84 people in December, 1989, to 50 currently. But the future of the company could be determined this winter, when the SEC expects the case to go to trial.

By Eric Schine in Los Angeles

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BY GENE G. MARCIAL

THIS REFINER HAS SLICK PROSPECTS —AND SUITORS

Shareholders of Tosco learned the hard way that a company that's on the block can be hazardous to the pocketbook. In April, when the independent oil refiner's management abandoned efforts to sell the company because it couldn't get its desired price, the stock went into freefall in a matter of days—from 24 to 16. Even in the wake of the Mideast crisis, the stock is trading at only 17.

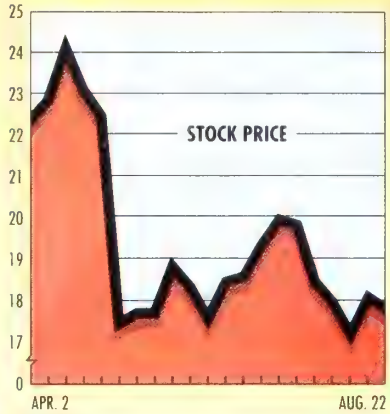
"Tosco has become quite undervalued—one of the overlooked plays in energy," says Craig Schwerdt, an analyst at Drake Capital in Los Angeles. Schwerdt says the company's operations appear to be on a healthy rebound. And that's not all that's attracting some savvy investors to the stock.

"Buyout rumors have returned," says one California investment manager who thinks the shares are now well worth $28 to $30 apiece. That was the price range Tosco's management had in mind in February when it hired Bear, Stearns to seek bidders.

One pro says that with the share price nearly down to its low and earnings looking up again, some big investors are pressuring management to put the company back on the block. British Petroleum is among those rumored to have expressed interest in Tosco when it first shopped for a buyer. BP is said to still be interested, mainly because of Tosco's West Coast refinery, estimated to be worth $1 billion. If BP makes a move on Tosco, say some buyout pros, Arco is apt to make a separate bid. Arco and Tosco have a long-term agreement for Arco to supply Tosco with 50,000 barrels of crude a day in exchange for gasoline.

SUNNY DAYS. Despite the sharp rise in crude-oil prices because of Iraq's aggression, Tosco's profit margins from refining have remained strong, says Bill Hyler, an analyst at Oppenheimer. Why? Gasoline prices have surged, too, by nearly 20¢ a gallon, or about $9 a barrel, particularly in the Los Angeles and San Francisco areas, says Hyler. Tosco operates a petroleum refinery in California and markets a variety of petroleum products in the U. S. and overseas, primarily gasoline and diesel fuel. It also supplies petroleum coke to Japan and Europe.

TOSCO: IT'S STILL DEPRESSED



DATA: BRIDGE INFORMATION SYSTEMS INC

Drake Capital's Schwerdt notes that Tosco's second-quarter results were strong: earnings of $1.52 a share, vs. 88¢ a year ago. And sales jumped from $334.1 million to $577.5 million during the quarter. For all of 1990, Schwerdt expects earnings to jump to $2.50 a share from 1989's 98¢.

A FEROCIOUS BEAR SEES SOME BUYS

Months before the Iraqi invasion of Kuwait, money manager Bob Gintel had already started pulling out of stocks and building up his portfolios' cash positions. He raised cash levels in the three Gintel mutual funds he runs from 5% in January to 23% in May. And he worried about the sharp downturn in some sectors of the economy, such as real estate, autos, and defense, plus the consumer-spending slowdown. When the Mideast tension flared up, Gintel's alarm leaped. He sold more stocks, increasing cash levels to between 36% and 44%—the highest ever for Gintel.

While still a ferocious bear on the overall market, Gintel thinks there are several stocks worth buying now. His top pick: SCI Systems, a major subcontractor to the computer industry, principally in the assembly of components for printed-circuit boards. SCI also makes communications and computer systems for aerospace and defense programs. Its major customers: IBM, which accounts for 27% of sales, and the U. S. government.

Why SCI? Gintel says the stock has been beaten down from 14 in April to 8 because earnings fell sharply in the year that ended June 30, to 11¢ a share, vs. $1 a year ago. And profit margins have narrowed from 6.2% in 1985 to 3.2%, he notes. High interest expenses from expansion efforts also ate into margins.

But Gintel thinks SCI is about to resume its profit growth. Margins could return to the 5% level, he says, boosting earnings to $1.15 a share in the year ending June, 1991, vs. 11¢ a year ago. Gintel expects revenues to rise from $1.1 billion in fiscal 1990 to $1.5 billion over the next several years. That earnings jump would enable the stock to double in 12 months, he says.

RIDING THE LATEST CURBS ON CARS

Because of its link with the auto industry, Sun Electric got hammered when the price of oil surged. The stock fell from 22 on Aug. 1 to 15, where it currently trades. That's when investment manager Jonathan Berg bought more shares of Sun, one of the few stocks he's still buying.

Berg, president of Berg Capital, which manages $100 million, believes investors are giving Sun a bad rap. He thinks that, rather than falling, demand for Sun's diagnostic and emissions-testing equipment for cars and trucks will rise—even if gasoline prices stay high. He argues that new, state-mandated vehicle-emissions testing is being enforced in about 30 states. This year alone, California, Missouri, and Texas have set or tightened vehicular emission standards.

Berg also thinks that Sun is likely to dominate the markets for such equipment in Europe, where emission standards are starting to take hold. "The company's sales and earnings will explode over the next two to four years as the markets for emissions-testing equipment expand in the U. S., Europe and Japan," he says. Berg estimates that Sun will grow at an annual pace of more than 25%, earning $2 a share in 1991 and jumping to $3 in 1993, vs. 1990's estimated $1.05 a share. Sun lost money in 1989 and 1988.

Gordon McCoun, an analyst at Brea Murray, Foster Securities, thinks the company's projected rapid growth could hoist the stock to well above 2 in the next few months. He adds that Sun is also benefiting from the increasing amount of electronic technology being used in motor vehicles to control fuel injection, suspension, braking, and other systems.

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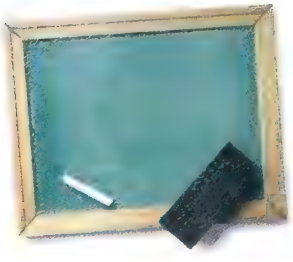

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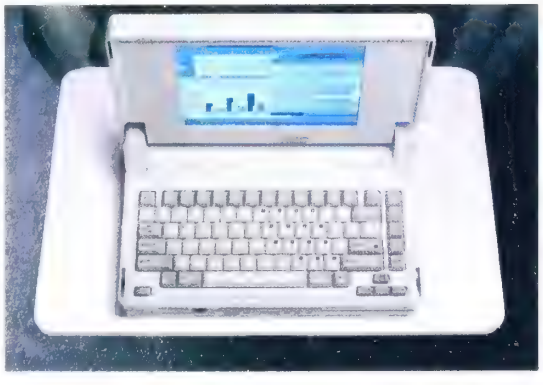

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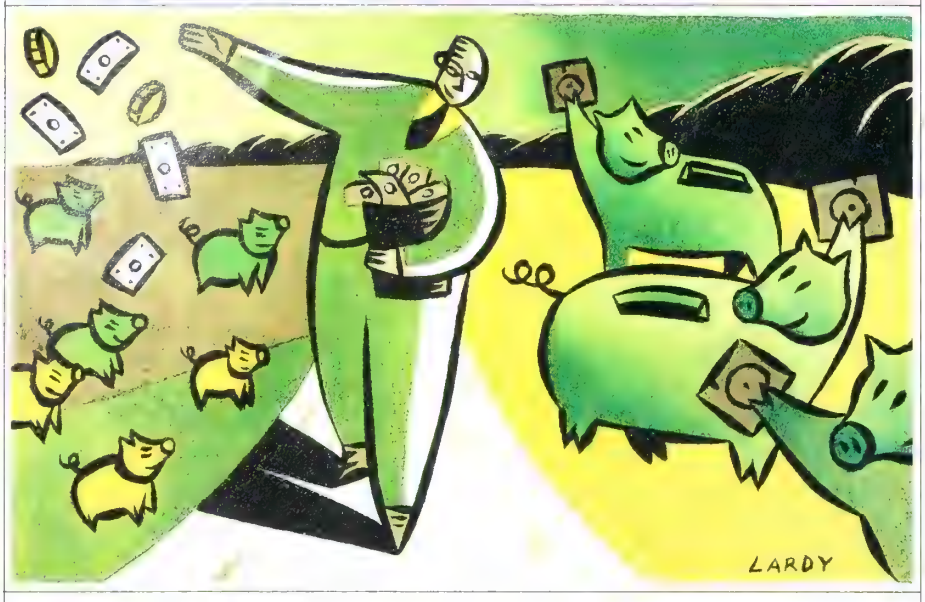
SOFTWARE



A NEW SWEETIE FOR VENTURE CAPITAL

With hardware startups struggling, software suddenly is king

In 1984, Vern L. Raburn spent three grueling months knocking on doors to raise $1.25 million for his software startup, Symantec Corp. Last January, when he needed money for another software fledgling, Slate Corp., he raised $5 million—in 12 hours. And the investors came to him. "It was the easiest thing I've ever done," says Raburn.

These days, software is king along Sand Hill Road in Silicon Valley's Menlo Park and wherever venture capitalists gather. Rayburn's record of turning Symantec into a successful public company certainly helped, but without the new zeal for software, Slate's fund-raising would not have been so amazingly easy. "The hardware market is well served," says John W. Bayless, a partner in the venture firm Sevin Rosen Management Co. "Software is where the opportunities lie." Indeed, for the first time, investments in software and service companies have surpassed those in hardware startups, according to Venture Economics Inc. (chart).

HARD-LUCK HARDWARE. Venture capitalists say it's high time they rotated crops. The cost of launching hardware startups continues to soar, while the move to more standardized computers squeezes margins and makes it harder to break into the market with new designs. Take Next Inc., Steve Jobs's workstation startup. Five years after its founding—and after raising $200 million—it is still far from turning a profit. Another high-profile startup, Dynabook Inc., raised $40 million with the backing of Silicon Valley's top venture capitalists but is near collapse after its laptops fizzled.

But the world is clamoring for new software. For example, there's a need for sophisticated applications programs that work with Unix, a popular standard operating system to run computers. The new networked style of computing requires new programs that can run simultaneously on personal computers and network hubs. And Microsoft Corp.'s recently released Windows program is spawning a whole new generation of applications packages for PCs.

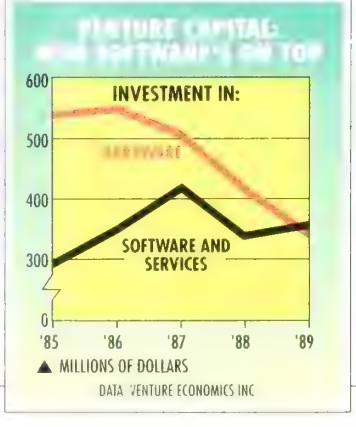
Two venture funds have been launched just to handle software startups. William Lohse, a former president of Ziff-Davis Publishing Co., in August helped start Software Venture Partners, and Ann L. Winblad, founder of accounting software maker Open Systems Inc., co-founded Hummer Winblad Venture Partners seven months ago. Since then, Winblad and her partners in the $35 million fund have heard pitches from a staggering 250 companies, she says. They have invested in only a handful, including Raburn's Slate, which makes software for computers that "read" handwriting entered with an electronic pen.

Software startups present their own problems, of course. They are relatively small companies that produce less revenue than hardware startups and require less capital. That means making many small investments, then tracking them. "You have to work harder to invest a dollar," says William H. Davidow, general partner at Mohr, Davidow Ventures. In addition, software is risky. Development projects are notoriously difficult to manage and complete on time. And programmers—a software company's chief asset—require careful handling.

ITCHING FOR A NICHE. So even as they rush to find software investments, venture capitalists are looking to limit their risks. They're demanding both experienced management and programmers who have proved that they can get products out the door. "It used to be that a couple of programmers in their garage could get funding," says Wayne Carpenter, president of Saros Corp., a Bellevue (Wash.) startup that has raised $9.5 million in three rounds of venture financing. Saros, which sells a package for networked-computer setups, has had to convince backers that its 15 highly paid software engineers are a stable lot, says Carpenter.

Despite the challenges of tracking so many small, potentially troublesome enterprises, software has its rewards. A company doesn't have to have $100 million in sales for us to have a very successful investment," notes Jacqueline Morby, a senior general partner at TA Associates who has specialized in software for 11 years. "We almost ignore the big companies and say, 'Where are the niches?'" Two TA niche companies, Micrografx Inc. and Lotus Corp., had successful initial public offerings in 1990. That helps the firm average a 45% return on software investments, compared with 20% on other deals. Those are numbers that will keep venture capitalists chasing software deals for years to come.

By Richard Brandt in San Francisco and Evan Schwartz in New York



NUFACTURING

NGINEERING MADE EASY, 'HANKS TO IGOR AND FRIENDS

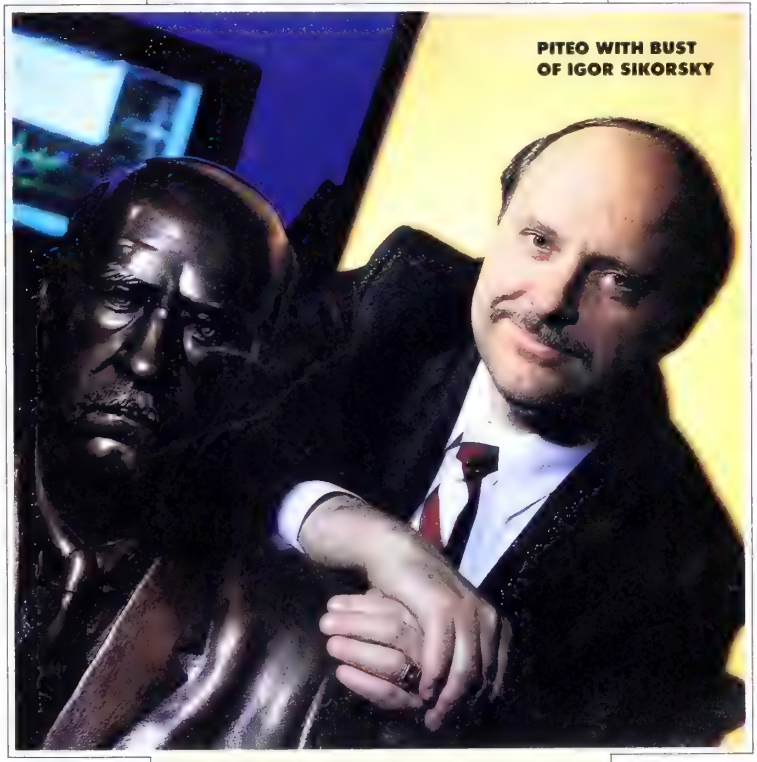
ow Sikorsky and others are taming oceans of computerized data

t's one of the ironies of manufacturing automation. Computers help product designers and engineers nk out more work than ever. Yet new oducts don't get to market all that ch faster. It seems that much of what gineers do is busywork: constantly reing this part or that because the vari- engineering teams don't know what e others are up to. "Perhaps 50% of e changes we make [are avoidable]," ys Joseph W. Piteo, manr of engineering autotion at the Sikorsky Airft Div. of United chnologies Corp. Prodt development, he adds, as to be more efficient." Piteo's answer is a comter system called Igor, med after helicopter pioer Igor I. Sikorsky. Igor ks Sikorsky Aircraft's rious computer-aided ols—for design, engiering, and manufactur;—so the different engiering teams can laborate in real time on design and production the 35,000 pieces in a pper. By the time Igor fully installed in 1992, eo predicts, "what we're ng today with 100 engiers, we'll do with 10."

ING UP. From Connecti- to California, that pros:t is electrifying U. S. instry. In fact, so many nagers ask to see a cousin of Igor's, lumberger Ltd.'s Electronic Bill of terials (EBOM) system, that Schlumger has limited tire-kicking visits to day a month. Call it engineering a management or electronic design nagement (EDM), the idea is the same: sh time to market. Companies aren't mping down much money yet, notes nnis Yablonsky, chief executive of rnegie Group Inc., a Pittsburgh softre house. But that may soon change. erpa Corp., a leading supplier of M software, sees the EDM market ring to as much as $500 million by 1995, perhaps 10 times the 1988 figure.

That prediction reflects the eagerness of most manufacturers to corral a stampede of engineering data, much of it on paper. Paradoxically, computer-aided design (CAD) and engineering (CAE) have increased the flow of paper. That's because different brands of CAD and CAE systems can't easily "talk" to each other (page 104). So, to send a part design to other departments or companies, it must be printed on paper, then manually fed into each recipient's computer. The process is slow and runs the risk of human error. And all too often, a revised design arrives after an assembly containing the part is in production. An engineering change order must be issued, and the fix can be costly indeed in terms of both retooling and delay in getting to market.

INSTANT UPDATING. The problem is so prevalent that Ford Motor Co. invested seven years and $77 million in developing a proprietary solution, called Worldwide Engineering Release System (WERS). Ford threw the switch on WERS in North America last year. Its European operations have since signed on, and its Latin American and Asian ventures will join in the mid-1990s. "It was an approach we felt we had to implement in order to do our product planning on a global basis," says Charles L. Bambenek, a WERS project executive. And it may have an added benefit. Sherpa says studies by its customers show returns on EDM investments ranging from 190% to 355%.



PITEO WITH BUST OF IGOR SIKORSKY

Both WERS and Igor keep engineering documents in a central data base and update the information instantly so no outdated paperwork fouls up a design. And the electronic data created in the design department can be used to run engineering analyses or drive factory computers. Igor even will alert everyone who is affected. "It lets every single designer see everything around him—and enables the people downstream, in manufacturing, to take a look at what we are doing," says Thomas A. Follo, who heads a team of Sikorsky airframe-design engineers. "That saves a lot of errors and makes things move a lot faster." In fact, EDM is crucial to concurrent engineering, which involves teams from various departments, including after-sales service and outside suppliers, cooperating on the development of new products.

Take Motorola Inc.'s Codex division, a leading maker of modems used in data communications. Codex invested $10 million in an EDM system that went on-line in early 1989. Since then, the company has slashed from 36 months to 22 the time that it takes to build a new product—and this year it will shrink to 18 months. Hewlett-Packard Co. envisions

A SAMPLER OF DESIGN MANAGEMENT SOFTWARE

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STEVE BOLDMAN

similar gains with Colossus, an engineering data base it has been compiling for three years. When Colossus is ready, in a year or two, "it will let us turn around prototypes in a couple of days instead of weeks," says Harold E. Edmondson, HP's director of manufacturing.

The hang-up is creating the digital standards for describing the 150,000 designs that HP has accumulated, so that CAD, CAE, and CAM equipment can use the same data. "You can't have EDM without the ability to represent your data in a transparent way" across different types of hardware, explains Howard M. Bloom, chief of factory automation systems at the National Institute of Standards & Technology. NIST is overseeing development of just such a standard, called Product Data Exchange Specification (PDES). "But we are at least a year away from a working version," he says. Many EDM advocates aren't waiting. Digital Equipment, IBM, Intergraph, and Computervision already have, or are developing, EDM software based on the draft PDES standard.

The difficulty of moving to EDM can be eased with prepackaged software. With Sherpa's, for instance, Schlumberger's Wireline Div. was able to get control of its 200,000 parts and designs for $500,000, a figure it will earn back quickly. Says Robert R. "Buddy" Peiser, group CAE manager at Wireline: "The speed at which you implement a change is crucial to profitability."

IN NO RUSH. But the human side of EDM isn't so easy to deal with. EDM works well only if the "wall" separating design from manufacturing is demolished in favor of teamwork. Because that endangers middle-management fiefdoms, EDM has so far won only a handful of converts. "There are less than 500 sites and fewer than 12,000 users in the whole world," says Donald H. Brown, chairman of D. H. Brown Associates Inc., a Tarrytown (N. Y.) consultant. By comparison, the U. S. alone has some 600,000 design and mechanical engineers.

Sikorsky's Piteo says there's another reason for going slowly: to ensure that Igor's capabilities don't conjure up images of Big Brother. He makes sure that all members of an engineering group are sold on Igor before their boss is plugged in. So far, only 235 of Sikorsky's 2,100 engineers have been trained on Igor. Still, despite apprehension about cultural upheavals, EDM will ultimately prove essential to the competitiveness of U. S. industry, Brown asserts. "What we're talking about," he adds, "is reorganizing all manufacturing."

By Resa W. King in Stratford, Conn., with James B. Treece in Detroit, Richard Brandt in San Francisco, and Keith Hammonds in Boston

DESIGN SOFTWARE THAT COVERS ALL THE DATA BASES

Automated design programs that speed its workstations to market have helped MIPS Computer Systems Inc. become a hot company. Still, such programs give design director Ray Kunita migraines. Chip design software must be translated before it can "talk" to programs that design circuit boards. Repeated endlessly, such steps fatten a project's development time by 20%.

Now, the bottleneck may soon be eased. Mentor Graphics, Cadence Design, and other makers of electronic-design software are perfecting programs called "frameworks" that will make existing programs work together. "Frameworks are a fundamental technology we need to increase our productivity," says Mark McQuilkin, director of chip design automation for Texas Instruments Inc.

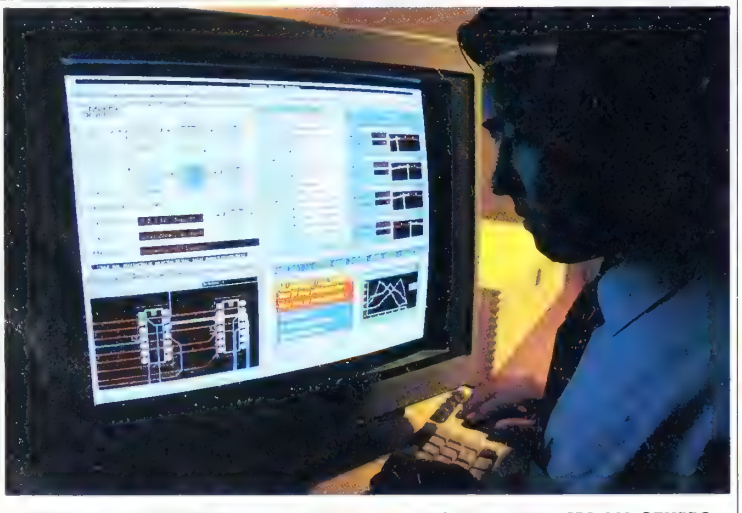
They're also the suppliers' best hope for reviving growth. Sales of design automation software may rise 19% this year, to $1.9 billion, according to market researcher Technology Research Group in Boston. But that's below the usual 25%-plus rate. "Customers want the next-generation solution, and no one has it yet," says Cadence Design Systems President Joseph B. Costello. In July, industry leader Mentor Graphics Corp. posted its first quarterly sales drop in eight years.

'SNAKE OIL.' Frameworks impose a common data structure on programs that deal with every element of design: chips, printed-circuit boards, and software, for instance. A change in one element may alter everything else. When an engineer using Mentor's framework substitutes a chip on a circuit board, on-screen warnings say whether the change will generate too much heat, or even cost too much. Such interplay should help foster concurrent engineering: Instead of developing products step by step, manufacturers want designers, engineers, parts buyers, and even marketers to work in tandem.

Dataquest Inc. analyst Ron Collet says frameworks won't take off for perhaps five years. Adds Andrew J. Graham, a Motorola Inc. design automation manager: "There's a lot of snake oil in this business." Frameworks are tricky to write and require cooperation among programmers. Their software must use the same standards for representing, organizing, and sharing data. And most such standards aren't set yet.

Still, early versions of frameworks are appearing. Actel Corp., a semicustom chipmaker in Sunnyvale, Calif., uses a Cadence framework that gives various chip-design programs the same look and lets them share data bases. Now, Actel engineers can plot wiring paths without spending months writing translation programs. Engineering Vice-President Jeff Schlageter recalls shaving three months off one 21-month effort. Better yet, the new chip worked the first time. "We lose half a year every time we get a chip that doesn't function," he adds. If frameworks can help avoid that, analysts say, industry growth of 25% is on its way back.

By Robert D. Hof in San Francisco



MENTOR'S FRAMEWORK: A CHANGE IN ONE PROGRAM UPDATES ALL OTHERS

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DICINE

ROMANCING THE GALLSTONE

More glamorous' and cheaper removal methods vie for supremacy

Three years ago, new technology promised a way to avoid the nation's most common surgery. A ,300 procedure using ultrasonic waves ould pulverize gallstones—the painful ggets that can form in the gallbladder. It would replace a $7,000 operation quiring a six-inch incision to remove e pear-size organ that aids digestion—d a month off the job to heal. The new eatment "was the cat's meow," recalls r. John P. Siegel, a surgeon at San se's O'Connor Hospital.

But lithotripsy, as the procedure is lled, has a drawback: The cure may t last. This has created a race among w methods that may have wide reperssions. The substitute treatments invlve less surgery or none at all. That anslates into smaller doctors' fees, hich may help hold wn heath care costs.

Enthusiasm for lithoipsy has faded over uestions about its efctiveness: Tests show at gallstones recur in % of patients within ve years. At the intenty of ultrasonic waves e Food & Drug Adinistration has authozed in the U. S., lithoipsy works best on st one small stone. nat means multiple eatments for many tients—plus $1,000 orth of medication to ssolve stone fragents. Mindful of such awbacks, last October e FDA rejected the apications of two lithoipter machine makers sell their devices mmercially. The FDA ay take until 1992 to cide if the $1 million achines are effective ough to win approval.

"One glamorous technology strikes out," tes Dr. Michael F. ppel, chief of general rgery at Houston's St. Luke's Episcopal Hospital, "and an even more glamorous one comes along." He's referring to a new technique using a laparoscope, a medical telescope that projects a patient's innards on a TV screen. With slim surgical instruments, the surgeon can squeeze the gallbladder through a half-inch incision in the navel, which doesn't disturb slow-healing stomach muscles.

Since it was introduced two years ago, doctors have flocked to the new operation, which is called laparoscopic cholecystectomy, or LC. "There's a real frenzy to learn it," says Nashville surgeon Eddie Joe Reddick, an LC pioneer. By yearend, he will have taught the technique to thousands of physicians. Some 3,000 LCs have been performed so far, and most insurers cover the procedure, which costs as little as $4,000 and can get a patient back to work in six days.

One strength of LC is that the tools it requires already exist. In fact, the procedure is creating a windfall for makers of laparoscopes, such as Karl Storz Endoscopy-America, Richard Wolf Medical Instruments, and Cabot Medical. They report months-long order backlogs. Even surgical-laser makers, such as Laserscope in San Jose, are hawking their laser surgical instruments to capture a piece of the potential $400 million market in LC instruments.

But the lithotripsy crowd isn't conceding defeat yet. To make their products more affordable, the manufacturers are building dual-purpose machines that blast kidney stones, too. Proponents contend that lithotripsy is still best for those who cannot have or do not want surgery—25% of gallstone sufferers.

DANGEROUS DEBUTS. Lithotripsy advocates cite other selling points: LC is still surgery, which requires risky general anesthesia. And inexperienced surgeons could harm tissue surrounding the gallbladder until they learn the technique, which may take them 50 operations. LC, says Timothy D. Ketchmark, lithotripsy systems manager at Siemens Medical Systems Inc., "should not be seen as the only solution to treating gallstones."

It won't be. Other new techniques are being tested on humans. One device, called a lithotrite, is a long, thin tube with a basket at the end that the doctor inserts through an incision into the gallbladder, where it opens to expose tiny blades. They whirl about at 30,000 revolutions per minute to chew up the stones, which are then sucked out. In another, "gallbladder ablation," a doctor uses an electric current and chemicals to scar the gallbladder so that it withers away. Yet a third contender uses a chemical, MTBE, to dissolve the stones.

Whatever the method, it seems likely that gallbladder treatment will soon get better and cheaper. It's one of those unusual cases in which cutting costs may benefit patients, too.

By Elaine Chow in San Francisco

SURGEON SIEGEL: PLUCKING OUT THE GALLBLADDER THROUGH A CUT IN THE NAVEL

FOUR WAYS TO GET RID OF GALLSTONES

SURGERY A 4-to-6-inch incision is made across the abdomen, and the gallbladder is removed. Cost: about $7,000, including a week in the hospital, plus a month off the job

LITHOTRIPSY Ultrasound waves break up gallstones. It costs less than surgery, and recovery is quicker. But the stones can return

LAPAROSCOPIC CHOLECYSTECTOMY This new operation lets the doctor make a half-inch incision at the navel and remove the gallbladder with the aid of imaging equipment. It's still surgery, but with a quicker recovery

LITHOTRITE Inserting a device with blades on the end, doctors chop up the gallstones without removing the bladder

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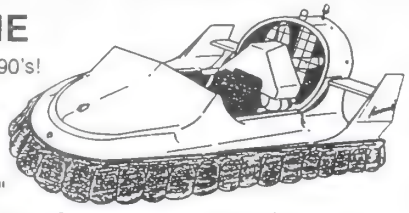

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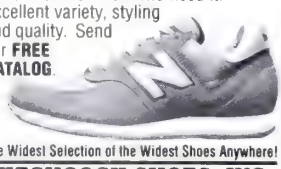

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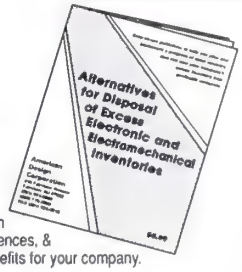

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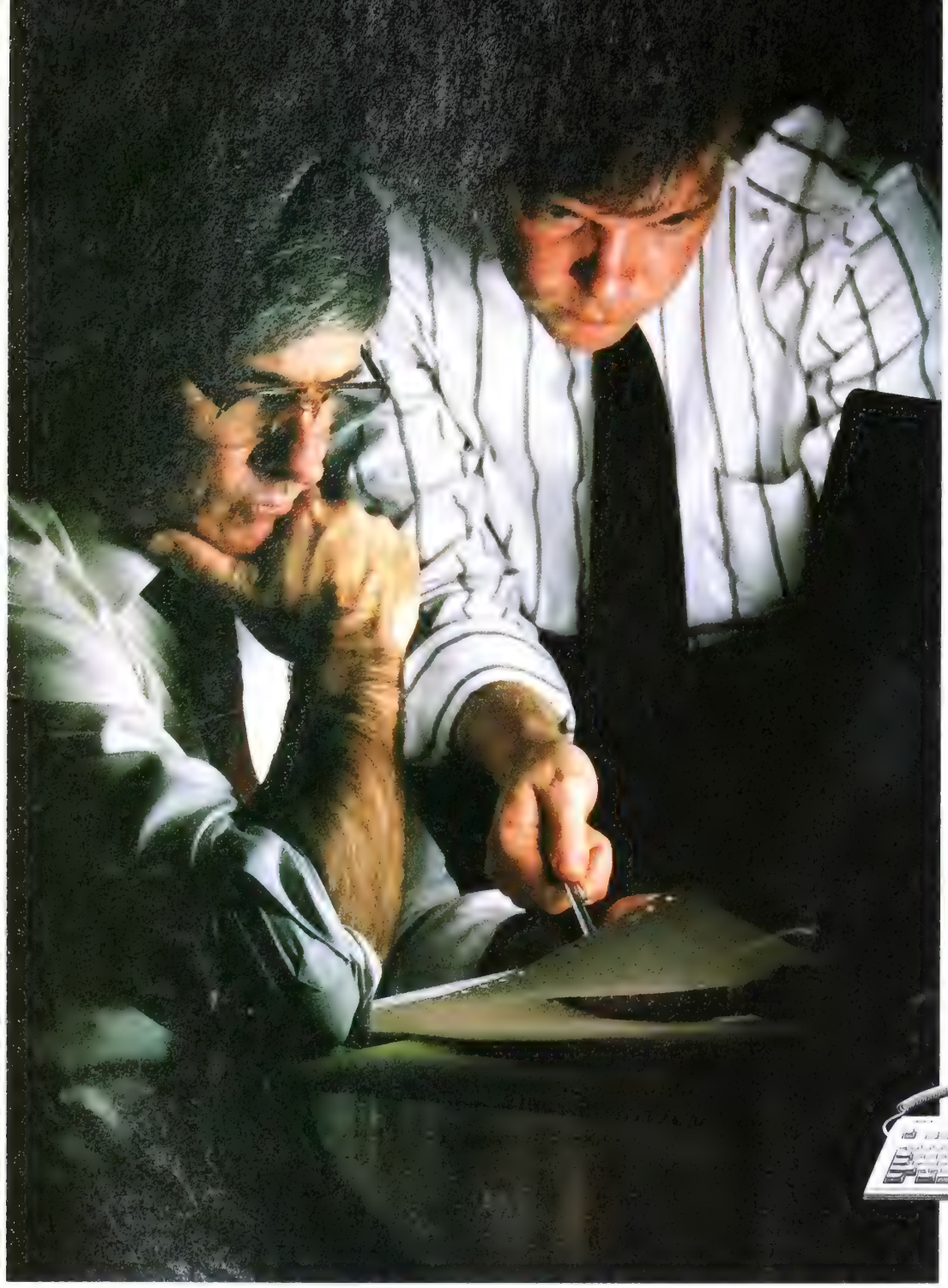

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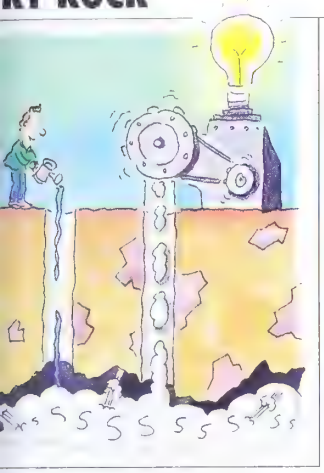
Developments to Watch

ITED BY OTIS PORT

VORKING UP STEAM OVER HOT RY ROCK



Standing on Alaska's North Slope, you know there are vast energy reserves under your feet. But there may be an even greater, untapped energy source under your feet right now—no matter where you are. It's dubbed hot dry rock.

The layers of granite a mile or more underground are hot enough to boil water. Just drill two holes deep enough, pump cold water down one, and water heated to around 500F will rise up the other. It's not really at simple, of course. Still, Jefferson W. Tester, director of e Energy Laboratory at Massachusetts Institute of Technol-y, believes the granite may contain far more energy than all ssil fuels combined. And where the granite isn't too deep—ostly west of the Mississippi—Tester says the cost of gener-ing electricity this way could be economical within a decade. Scientists have speculated about this concept for more than ro decades, but research waned as oil prices plummeted in e early 1980s. Next year, though, the Energy Dept. plans to nduct a year-long test of the scheme, using twin 12,000-foot ells near Los Alamos (N. M.) National Laboratory.

WAY TO SPOT ALZHEIMER'S EFORE IT'S TOO LATE

Alzheimer's disease, a brain disorder, afflicts an estimated 4 million Americans. But by the time a diagnosis is made, s often too late to do anything. Now, there's hope that rlier diagnosis may be possible—by adapting a new test veloped to spot a rare disease similar to Alzheimer's. It ould be the first nonsurgical way to identify and track the rogression of Alzheimer's, says Mark B. Pepys, head of im-unological medicine at the Royal Postgraduate Medical hool in London and a co-developer of the test.

The original research, reported in the *New England Jour-al of Medicine*, used a radioactively labeled protein to identi-a rare disease called systemic amyloidosis. The scientists eated a harmless blood protein with radioactive iodine. Inject-l into the blood, this radioactive "marker" attaches to the seased tissues, enabling doctors to detect the extent of the mage. The same technique, Pepys says, should be able to g the so-called sticky amyloid plaques associated with Alz-imer's. Initial trials with the same iodine compound didn't ork, but Pepys thinks that a different iodine will.

IDTV MAY HAVE JUST GOTTEN LOT CHEAPER

Tektronix Inc. has found what may be an economical alternative to the monster-size picture tubes that will be used r future wide-screen, high-definition TV displays. The cost of aking vacuum-tube screens measuring 30 inches to 50 inches agonally is the main reason why HDTV sets are expected to run $3,000 and up. Flat-panel, liquid-crystal displays (LCDs) that big might not be much cheaper, since the LCD's back side is ordinarily blanketed with semiconductors—transistors behind each of the thousands of color dots, or pixels, on the screen.

But Tektronix has built a prototype flat panel that doesn't need a transistor switch at every LCD pixel. Instead, it has a much simpler, gridlike pattern. The horizontal rows are hair-thin tubes containing an inert gas. The vertical lines are signal-carrying circuits. Individual pixels are activated by charging one end of a horizontal tube, causing the gas inside to ionize and become conductive, and simultaneously sending on/off signals down the vertical lines. The Defense Advanced Research Projects Agency likes the concept and recently announced that it will fund further development.

COMING TO BAT: AN ENTIRE LINEUP OF 'LEFT-HANDED' MOLECULES

Many molecules in the body come in one of two possible mirror-image forms. Cells generally produce "left-handed" proteins, for example, and dine on "right-handed" sugars. Handedness is determined by the angle at which the molecule bends light. It's an esoteric distinction, but it has important implications for chemistry and pharmacology. Depending on the target, a left-handed preparation might be 100 times more potent than its otherwise-identical right-handed twin—or vice versa.

Chemical synthesis, unlike nature, typically produces equal amounts of left- and right-handed molecules. Separating the mirror-image forms is difficult and expensive because they are chemically identical. As a result, many drugs and other substances are mixtures and are less than optimally effective.

Now, a small Warren (N. J.) company, Celgene Corp., has developed a relatively inexpensive method for purifying preparations so they contain either right- or left-handed molecules. The process, which has just been granted a patent, enlists the services of bioengineered bacteria. Celgene scientists modify the bacteria to produce enzymes that chew up the unwanted molecules. The method promises to improve the potency of drugs and pesticides and also to intensify some sweeteners.

'HELLO, I'M TOUCH 2000. I'LL BE YOUR WAITER THIS EVENING'

Fast food is even faster at the new Carl's Jr. restaurant in Azusa, Calif. There's no waiting for someone to take your order. Instead, you punch it out yourself—by pressing your selections on a touch-sensitive countertop menu connected to an IBM personal computer. The PC checks the order and, if you haven't ordered a beverage, flashes back a question: "Would you like a cool soda or an iced tea?" When the PC is satisfied, it relays your order to the kitchen and the cashier.

This isn't just a grand-opening gimmick. The system, dubbed Touch 2000, was developed by Denver's Management Information Support Inc. and IBM in cooperation with several Arby's fast-food outlets, which also have automated ordering. If the technology goes down in Azusa, it will spread to more of the 540 Carl's Jr. restaurants in California, Arizona, Nevada, and Oregon. Burger King is also evaluating the system.

EDITED BY AMY DUNKIN

Health

IN VITRO FERTILIZATION: DELIVERING THAT RAY OF HOPE

For many couples, having a baby is not as easy as they thought it would be. CBS newscaster Connie Chung, 44, recently cut back her heavy work schedule to increase her chance of getting pregnant. Thousands of other women and men are paying a high emotional and financial price to have a child. "It's devastating. Money can't buy it for you," says Marlene Kaminsky, 36, of Castro Valley, Calif., who went through eight years of fertility treatment before adopting.

An estimated one in six couples is infertile. That means they haven't conceived after one year of trying. In the past, remedies included drugs to boost ovarian egg count or surgery to open blocked fallopian tubes. Doctors didn't even bother treating most women over age 35 or those with tubes beyond repair.

But that has changed with the wider use of in vitro fertilization (IVF). It offers a last glimmer of hope for many. Since the 1978 birth of the first test-tube baby in Britain, IVF has moved into about 250 clinics in the U. S. And there's even a method now that averts surgery. But the field is strewn with disappointments: IVF is costly, standards are uneven, and success rates are frustratingly low.

NO PANACEA. Still, some 20,000 couples a year are shelling out $7,000 to $10,000 per try, and only part of the cost, if any, is covered by insurance. The process involves using drugs to stimulate egg production, harvesting eggs from the ovaries, fertilizing them with the husband's sperm in a petri dish, and inserting the best embryos into the uterus. Twins and triplets are frequently born to the lucky few whose embryos flourish and grow to term.

Although some clinics claim success rates as high as 30%, the procedure works only 1% of the time according to the latest (1988) data from the American Fertility Society, a physician group. Some clinics have operated for years without a single live birth to their credit. This prompted Representative Ron Wyden (D-Or.) to introduce legislation in June that would require IVF clinics to report success rates to the federal government.

PRECAUTIONS. Nevertheless, a woman who has been on an endless regimen of fertility drugs may want to ask for a referral to an IVF specialist. Dr. Francis Polansky, director of the Nova Fertility Center in San Mateo, Calif., recommends sticking to any one treatment for no more than six months. If it hasn't worked by then, stop wasting valuable time and switch to another approach.

Couples should consider a number of issues when shopping for an IVF clinic:

- Be sure the doctor is skilled at IVF. "There are a lot of gynecologists out there who project themselves as infertility specialists who have had any training" in IVF, says Dr. Michael Feinman, director of the IVF program at New York City's Albert Einstein College of Medicine.
- Did the doctor do a subspecialty fellowship in reproductive endocrinology and infertility after medical school and residency? If not, how recently has the doctor been trained in IVF techniques? Does your doctor use the new ultrasound method, requiring only a local anesthetic, to locate and re-

eve eggs, rather than sury? A doctor should perrm at least 40 egg trievals a year to avoid beming rusty, says Polansky. Find a doctor who is open different treatments. There ıy be an interim step to try fore in vitro, such as new oes of drug therapies. Is there an on-staff PhD biogist or endocrinologist? is is important because the logist will evaluate the ferized eggs during the threenth in vitro process. If or eggs are selected for imntation, you could be pourg money down the drain. Perhaps most important, ass the doctor's attitude. You ed more than a good techni-n. You want someone who ll take time to explain the mplex details of the process both of you. You will be le to tell plenty during your itial consultation, which sts anywhere from $120 to 00 and lasts up to two urs. Has the doctor thorghly reviewed the medical records you sent before the meeting? The physician can't offer you guarantees but can provide a straightforward assessment of your chances, which diminish significantly for a woman after age 40. ■ Ask for the clinic's "take-home baby"—or success—rate. That is, the number of live births divided by egg retrievals times 100 for the percent of take-home babies. Get live-birth data, not pregnancies, 30% of which end in miscarriage. Since multiple births are common, don't count extra babies per delivery.

The success rate gives an idea of how well the clinic is doing, but it's not the whole story. Ask about age cutoffs or screening—such as not taking male infertility cases, which doctors believe account for up to half of all infertility. Such criteria can swell a clinic's success rate.

For some, in vitro is the long shot that works. Over four years, Mary Ann Wilmarth, a 30-year-old physical therapist in Sunnyvale, Calif., underwent hormone treatments, two surgeries, and four artificial inseminations. Mood swings, weight shifts, and daily injections accompanied the treatments. "Every month, you're just hoping and hoping . . . and then there's the disappointment," she says. Last September, Wilmarth turned to IVF. In March, she became pregnant with twins after one implant.

The trick is knowing when to stop trying. Lynne Klein, 33, a former computer sales manager who lives in San Rafael, Calif., tried in vitro six times before adopting a baby boy a year ago. For the same $10,000 that a single IVF try costs, a couple can pursue a private adoption, with its greater likelihood of ending their angst. *Barbara Buell*

WHERE TO LEARN MORE ABOUT IN VITRO FERTILIZATION

Organization/Phone	Information
THE AMERICAN FERTILITY SOCIETY *205 933-8494*	Provides free list of IVF clinics, $1 guide to selecting the right one
GOVERNMENT PRINTING OFFICE, CONGRESSIONAL SALES OFFICE *202 783-3238*	Publishes hearing transcript on consumer protection issues surrounding IVF clinics, $31 (GPO Stock No. 052070066067)
RESOLVE (INFERTILITY SUPPORT GROUP) *800 662-1016*	Provides free IVF information and list of local chapters

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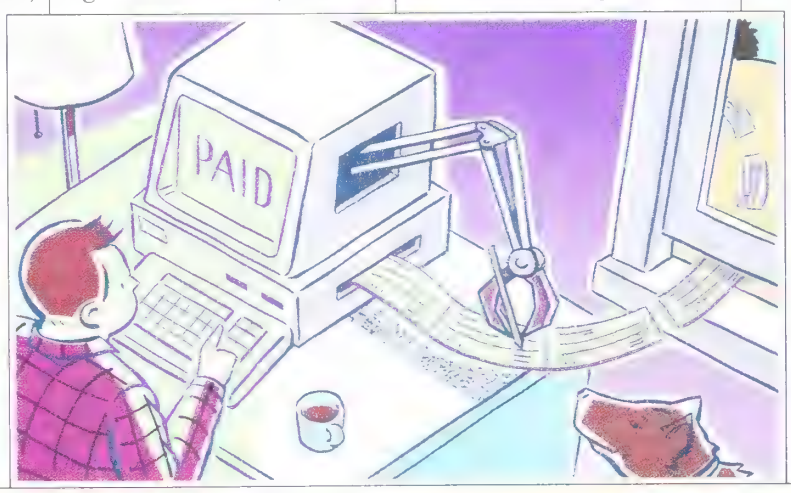
To get into the system, you need at least 256K of memory on an IBM-compatible PC or a Macintosh, a modem for calling a local number, and the CheckFree kit, available through software dealers.

Once on-line, you type fixed expenses into your PC. Say the mortgage payment is due. Using Banc One's access to the Federal Reserve wire system, CheckFree automatically debits your bank account and credits the account of a participating lender; others will get a laser-printed check. For expenses that vary, such as phone or credit-card bills, you punch each month's amount into your computer and flash it to CheckFree by modem.



The company has no record of your bank balance; it registers only the bills it pays. But the software allows you to set up your own internal running balance that CheckFree automatically updates whenever it makes a payment. Of course, to keep the balance current, you'll have to enter any handwritten checks into the computer yourself. The program also conveniently categorizes your spending to track just where your money is going.

More sophisticated financial-planning programs, such as Intuit's $60 Quicken and Meca Software's $220 Managing Your Money, contain simple check-writing features. But they don't do electronic transfers. You have to print out and mail the checks yourself. However, you can link CheckFree to these programs to get added benefits, such as portfolio management. The programs won't fatten your wallet. But they may give you more time to enjoy the money you spend. *Todd Vogel*

Smart Money

T-BONDS: A HAVEN FROM THE GULF'S PERILS?

In times of international turmoil, investors often take the flight to quality. And the U.S. government usually benefits, as its short-term securities suddenly look invincible compared with corporate equities or IOUs.

Long-term government offerings typically don't fare so well, however. Indeed, in the aftermath of the Iraqi invasion, traders have knocked 5% off the price of 30-year T-bonds, boosting their yields almost a full percentage point, to just under 9%.

Some economists and financial planners are responding to this development with unusually unequivocal advice: Buy bonds. Charles Lieberman, an economist at Manufacturers Hanover Trust, says Treasury bonds with yields this high "represent real value."

> Buying long-term Treasuries now may be a no-lose deal

The market for long-term bonds is spooked by the fear that higher oil prices will spread through the economy and rekindle severe inflation. If that happens, the cost of money—as expressed in long-term interest rates—will go up, too. Such an inflation scenario is possible. But Lieberman is not betting on it. The economy is weak, and that means lower rates, "once the market reverts its attention to [economic] fundamentals," he says.

Another bond bull is Larry Biehl, a partner at Bailard, Biehl & Kaiser, a San Mateo (Calif.) financial advisory firm. As he sees it, buying long-term bonds now represents a no-lose proposition.

The worst case, of course, is for rates to climb after you buy: That would depress the bonds' price. But further escalation of rates would undoubtedly choke off what little steam the economy has left, Biehl says. Whatever your bonds lost on paper you would recoup as soon as a recession dragged down long-term rates. A way to play the game in light of the uncertainty is to follow a dollar-cost-averaging strategy. Start buying bonds now, but hold some money in reserve in case rates go higher.

STRIP GAME. For aggressive investors, speculating on long-term bonds right now could be very profitable, Biehl says. The riskiest method involves buying 30-year "stripped" Treasury bonds. These are zero-coupon bonds—they pay no interest but are bought at deep discount to face value. They are tailor-made for speculators because prices rise dramatically when rates fall. For example, if rates fell one percentage point over the next six months, $1,000 invested in a 30-year Treasury Strip would grow to $1,750. Likewise, if rates increased by a point, the Strip would be worth just $580.

But if zeros are too racy for your blood and you want to play it safe, consider buying 10-year Treasury notes. As of Aug. 21, their yield was just 0.11 of a point less than the 30-year bond. That way, if rates ratchet up an additional point, the face value of your note goes down less. A 30-year bond with a 9% coupon and $1,000 face value falls quickly to $905 if rates go to 10%; a similar 10-year note would fall to $937. But if the Mideast calms down and rates decline, you'll collect your own peace dividend. *David Zigas*

Autos

THIS BABY 'BEEMER' IS A PINT-SIZE SCREAMER

It looks like a BMW. But it doesn't feel like one. The German company's new two-door 318is shares the same angular sedan bodywork of its brawnier brother, the 325is. The difference is under the hood—and on the sticker. Instead of the usual BMW straight six, the 318is draws power from a new four-cylinder, 134-horsepower engine. At $21,500, it's the lowest-priced BMW, about $7,500 less than the 325is.

The engine is a zippy little power plant that pulls harder the faster it turns, right up to a top speed of 122 miles per hour. But it's also loud, buzzing annoyingly at the higher revs. And at low engine speeds, it lacks the exhilarating authority common to six-cylinder "beemers." That means normal, everyday driving feels a bit sluggish. Still, fuel economy of around 27 miles per gallon is attractive at a time when gasoline prices are climbing.

MUNCHKIN SEATS. True to BMW heritage, the 318is has a tight suspension that helps it whip through hard turns with steady, predictable poise. Unfortunately, the ride suffers somewhat: On uneven roads, the car feels light and jounces unsettlingly. Antilock brakes, which stop the car straight and true even on slick roads, are standard equipment.

Inside, the car is simple and understated. Controls are easy to read, and the cassette radio has a nice feature, allowing tone adjustment just by running a finger across the bottom of its face.

Up-front occupants have plenty of room, and form-fitting bucket seats offer enough support for even the most spirited driving. The driver gets crash protection from an air bag. But the cramped backseat is strictly for munchkins. Although the seat doesn't fold down to provide extra cargo space, the trunk is large enough to hold several large suitcases or a 10-speed bike with wheels off.

The 318is is BMW's answer to surging Japanese competition. But several four-cylinder Japanese models offer comparable or better performance for thousands of dollars less. Acura's Integra GS is equally quick but has a more refined, contemporary appearance. And it's only $16,000. Or try the Mitsubishi Eclipse/Chrysler Eagle Talon twins. The $17,000, top-end model packs 200 horses and ground-gripping all-wheel drive. Then again, for some folks, the BMW cachet may be worth the premium. *David Woodruff*

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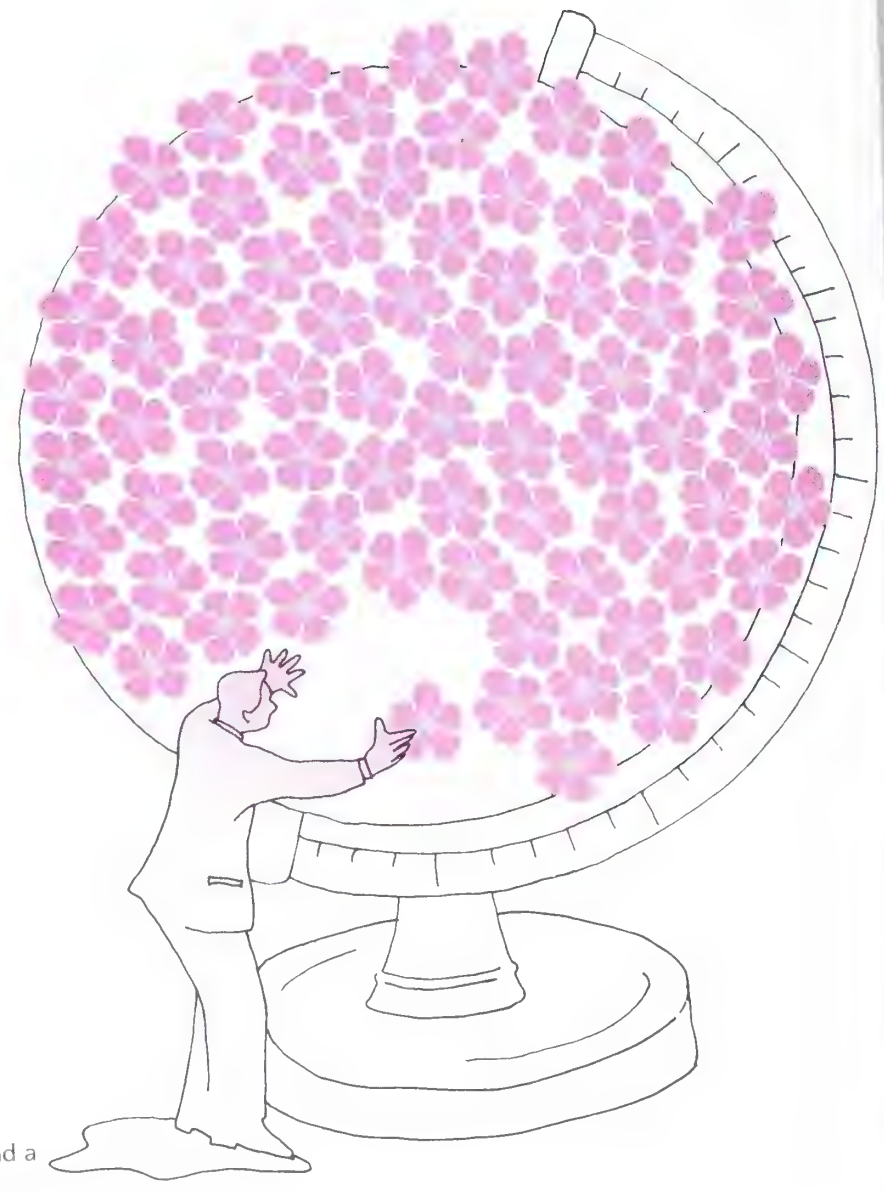

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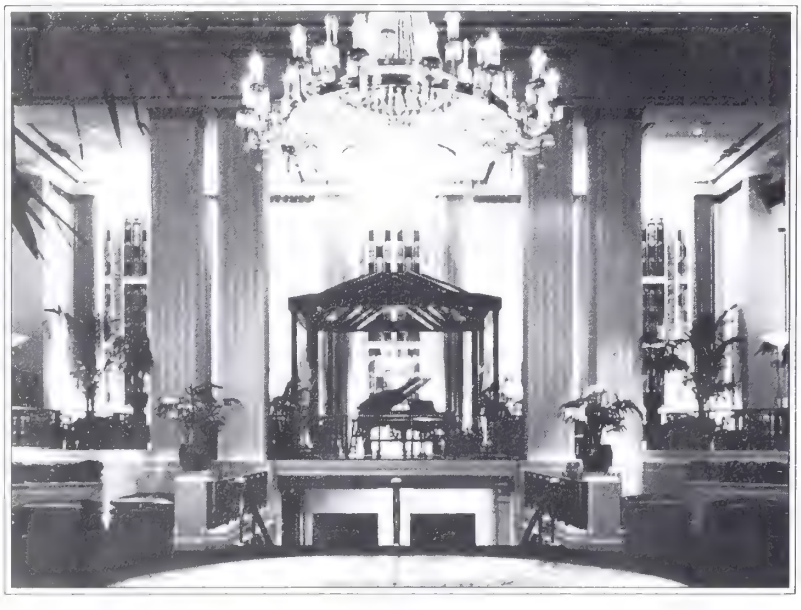

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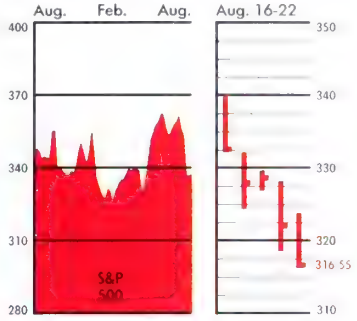
MENTARY

dam Hussein continued to cast adow over the financial mar- As news from the Persian continued gloomy, oil prices above $30 a barrel, and s tumbled. The Dow Jones in- ial average fell 94 points in days of consecutive losses. dollar remained weak, and in- t rates of 30-year Treasuries ed more than 9%. The losses more spectacular abroad, Tokyo stocks falling 10.3% markets from Vienna to Lon- suffering ferocious declines.

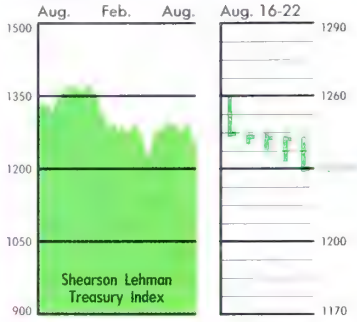
STOCKS



52-week change **–8.2%**

1-week change **–6.9%**

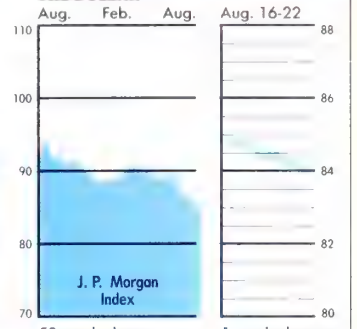
BONDS



52-week change **–7.8%**

1-week change **–2.6%**

THE DOLLAR



52-week change **–10.1%**

1-week change **–0.8%**

ARKET ANALYSIS

STOCKS	Latest	% change Week	% change 52-week
JONES INDUSTRIALS	2560.2	–6.8	–4.4
COMPANIES (Russell 1000)	163.5	–7.1	–10.2
LL COMPANIES (Russell 2000)	139.0	–8.1	–20.9
COMPANIES (Russell 3000)	173.5	–7.2	–10.9

EIGN STOCKS	Latest	% change (local currency) Week	% change (local currency) 52-week
OON (FINANCIAL TIMES 100)	2104.8	–6.0	–11.7
YO (NIKKEI INDEX)	25,210.9	–10.3	–27.7
ONTO (TSE COMPOSITE)	3431.2	–2.2	–13.0

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	7.9%	7.7%	8.3%
30-YEAR TREASURY BOND YIELD	9.1%	8.8%	8.2%
S&P 500 DIVIDEND YIELD	3.6%	3.4%	3.0%
S&P 500 PRICE/EARNINGS RATIO	14.8	15.9	13.3

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 26-week moving average	347.1	347.3	Negative
Stocks above 26-week moving average	18.1%	27.5%	Positive
Speculative sentiment: Put/call ratio	0.48	0.40	Positive
Insider sentiment: Vickers sell/buy ratio	1.21	0.98	Positive

IDUSTRY GROUPS

BRIDGE INFORMATION SYSTEMS INC

E-WEEK LEADERS	% change 4-week	% change 52-week	Strongest stock in group	% change 4-week	% change 52-week	Price
OLD MINING	15.8	29.2	HOMESTAKE MINING	22.8	64.9	22⅞
L AND GAS DRILLING	12.7	44.2	ROWAN	15.2	75.4	15⅛
OMESTIC OIL	4.8	17.4	ORYX ENERGY	13.1	43.4	52⅞
TERNATIONAL OIL	4.8	24.8	EXXON	8.4	18.6	51⅞
L WELL EQUIPMENT AND SERVICES	3.3	46.2	BAKER HUGHES	11.2	62.3	32¼

R-WEEK LAGGARDS	% change 4-week	% change 52-week	Weakest stock in group	% change 4-week	% change 52-week	Price
AMING	–30.7	–24.5	GOLDEN NUGGET	–33.5	–12.1	22⅝
RLINES	–26.6	–52.4	UAL	–35.4	–62.5	101⅝
OTELS AND MOTELS	–24.6	–61.3	PROMUS	–37.7	–43.8	16½
STRUMENTATION	–24.1	–34.9	HEWLETT-PACKARD	–25.3	–35.3	33¼
RSONAL LOANS	–23.8	–35.8	HOUSEHOLD INTERNATIONAL	–29.9	–45.8	32¼

UTUAL FUNDS

MORNINGSTAR INC

DERS

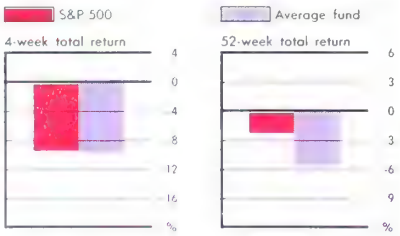
-week total return	%
TRATEGIC INVESTMENTS	36.4
NITED SERVICES GOLD SHARES	21.4
NTERNATIONAL INVESTORS	19.4

week total return	%
QUITY STRATEGIES	65.5
IDELITY SELECT ENERGY SERVICE	54.0
IDELITY SELECT BIOTECHNOLOGY	36.6

LAGGARDS

Four-week total return	%
PRUDENT SPECULATOR LEVERAGED	–29.3
STEADMAN OCEANOGRAPHIC TECHNOLOGY	–26.6
BULL & BEAR SPECIAL EQUITIES	–22.9

52-week total return	%
PRUDENT SPECULATOR LEVERAGED	–41.5
WASHINGTON AREA GROWTH	–33.8
FIDELITY SELECT BROADCAST & MEDIA	–32.5



ELATIVE PORTFOLIOS

DATA RESOURCES INC

ar amounts
resent the present
ue of $10,000
ested one year
in each portfolio

centages indicate
-day total returns

	Gold	Money market fund	Treasury bonds	U. S. stocks	Foreign stocks
	$11,298	**$10,706**	**$9,972**	**$9,413**	**$8,818**
	+0.56%	+0.14%	–1.72%	–5.17%	–1.87%

lata on this page are as of market close Wednesday, Aug. 22, 1990, unless otherwise indicated. stry groups include S&P 500 companies only; performance and share prices are as of market close Aug. 21. Mutual fund returns are as of Aug. 17. Relative portfolios are valued as of Aug. 21. A more detailed explanation of this page is available on request.

DON'T WAIT TO RAISE THE GASOLINE TAX

The case for a much higher federal tax on gasoline is so compelling in economic, fiscal, strategic, and environmental terms that Congress should enact one despite Saddam Hussein's oil crisis. U. S. gasoline prices are ludicrously lower than prices paid at the pump in other oil-importing nations, precisely because they levy hefty taxes on their gasoline, while we do not. The present crisis in the Middle East does nothing to change our mind about the need to correct this imbalance—indeed, it reinforces our resolve. Had the U. S. enacted a stiff gasoline tax a decade ago, the nation would have been in a much better position to withstand this new oil shock.

The Administration and Congress should agree to a higher gasoline tax as part of their plan for reducing the deficit, though this surtax should cut in only when supply and demand come back into normal balance in the oil market. To get the sort of pocketbook shock needed, the increase should be sizable—say, 50¢ per gallon. But it should take effect over five years, in annual increments of 10¢. That would ease the pain of such a price rise while prompting consumers to think hard about future fuel cost and gasoline consumption when choosing their next automobile.

The objection that such a tax would disproportionately burden the poor and therefore be regressive is not persuasive. The advantages of a gasoline tax depend on everyone, rich and poor, feeling the disadvantages. Moreover, what matters to one's standard of living is not the cost of a gallon of gasoline, as the consumer price index would have it, but the cost of driving a mile on that gallon. In the past decade, the average cost of oil and gasoline per mile fell in the U. S., as oil prices stabilized and automobile fuel mileage improved. And over the next 10 years, a one-third increase in the price of a gallon of gasoline could well be offset by another one-third increase in fuel mileage.

A higher gasoline tax would help us conserve energy and protect the environment. It would limit our dependency on foreign oil and thus give us more latitude in setting out foreign policies. It would reduce our trade deficit and trim our budget deficit. Against all these advantages stands one disadvantage: It would cost us more to run our cars—for a little while, anyway. Is there really doubt which way that argument should go?

EUROPEANS MUST LEARN TO PULL TOGETHER

With the end of the cold war, Western Europe seems certain to become a more independent power than it has been, under U. S. leadership, for the past 40 years. Yet the Iraq crisis dramatizes the inability of economically powerful Western European countries to wield joint political influence and military power to defend their own vital interests outside of Europe. The U. S. and its European allies have been reluctant, on both sides, to extend NATO's mandate beyond the Continent—the U. S. because expanded NATO ties could inhibit its actions in other parts of the world, Europe because it fears being drawn into U. S. wars that it opposes, such as Vietnam.

Americans may start to question the value of such an alliance, however, if they feel the U. S. is carrying the main burden of protecting shared interests outside Europe. If NATO is to survive, it will have to work out ways of consulting and coordinating responses to dangers such as Iraq's land grab. But to deal with external threats that are problems mainly for Europe—not the U. S.—Europeans also need to coordinate the making of foreign policy more closely among themselves, either through the European Community or the Western European Union, a largely inactive military grouping set up in 1955. Such joint action will be increasingly important now that Germany will soon be free of the limitations imposed on its actions by the World War II victors.

That should not be worrisome to Americans who share Europeans' basic values. There will be even less danger that Western Europeans will use their growing muscle recklessly if they strengthen their institutions for collective consultation and action.

PLEASE SIGN THIS BILL, MR. BUSH

In time, President Bush is going to have to make a critical political decision: whether to veto a new civil-rights bill. When Congress returns from its August recess, lawmakers are expected to iron out differences between the House and Senate versions of the legislation, and the final product is sure to contain some provisions the White House will find objectionable. So Democrats will be putting Bush in a bind. A veto will anger minority groups that Republicans have been trying to woo into the party's fold. If the President signs the legislation, though, he will have to accept provisions he dislikes intensely.

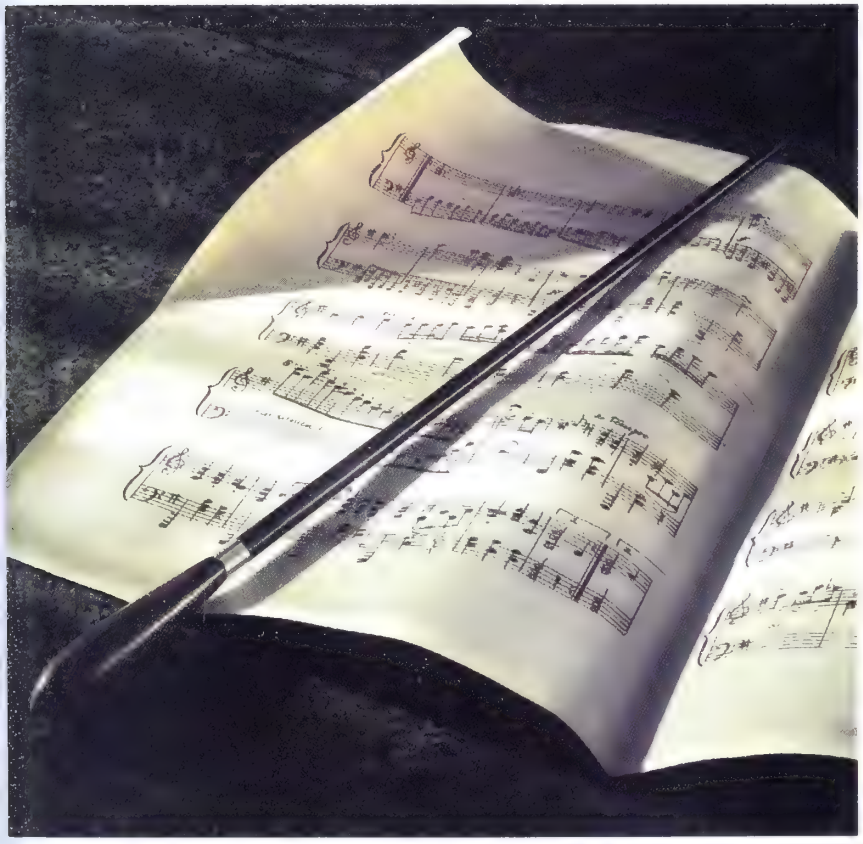
The original purpose of the bill was to reverse a string of Supreme Court decisions last year that made it harder for employees to win discrimination suits. But the legislation would go further than that (BW—Aug. 13). Women for the first time would be able to seek damages for sexual harassment. Disputes might be resolved in court, rather than in less costly administrative proceedings. And workers could win big damage awards instead of just back pay.

Democrats may yet let the President off the hook by agreeing to some minor adjustments that will enable him to claim victory and approve the legislation. Whether he does or not, Bush should sign it. Much of the legislation, first of all, returns the law to the way it was before the high court stepped in to muddy the waters. Business had little difficulty coping with the previous status quo. Equally important, minorities and women will account for ever larger percentages of the labor force in the future. Companies that discriminate won't survive. The new law would simply make what the labor market will force companies to do anyway.

In the wrong hands, it's just a stick.

No one ever got meaningful results by just pointing and waving. This is especially true in the area of workers' compensation, where costs continue to spiral out of control.

With our new Rx Comp program we've developed an approach that squarely confronts the major cause of the problem–ever-rising medical costs.



Rx Comp totally integrates the substantial benefits of our claims management programs with our dedicated provider network and proven medical cost containment techniques.

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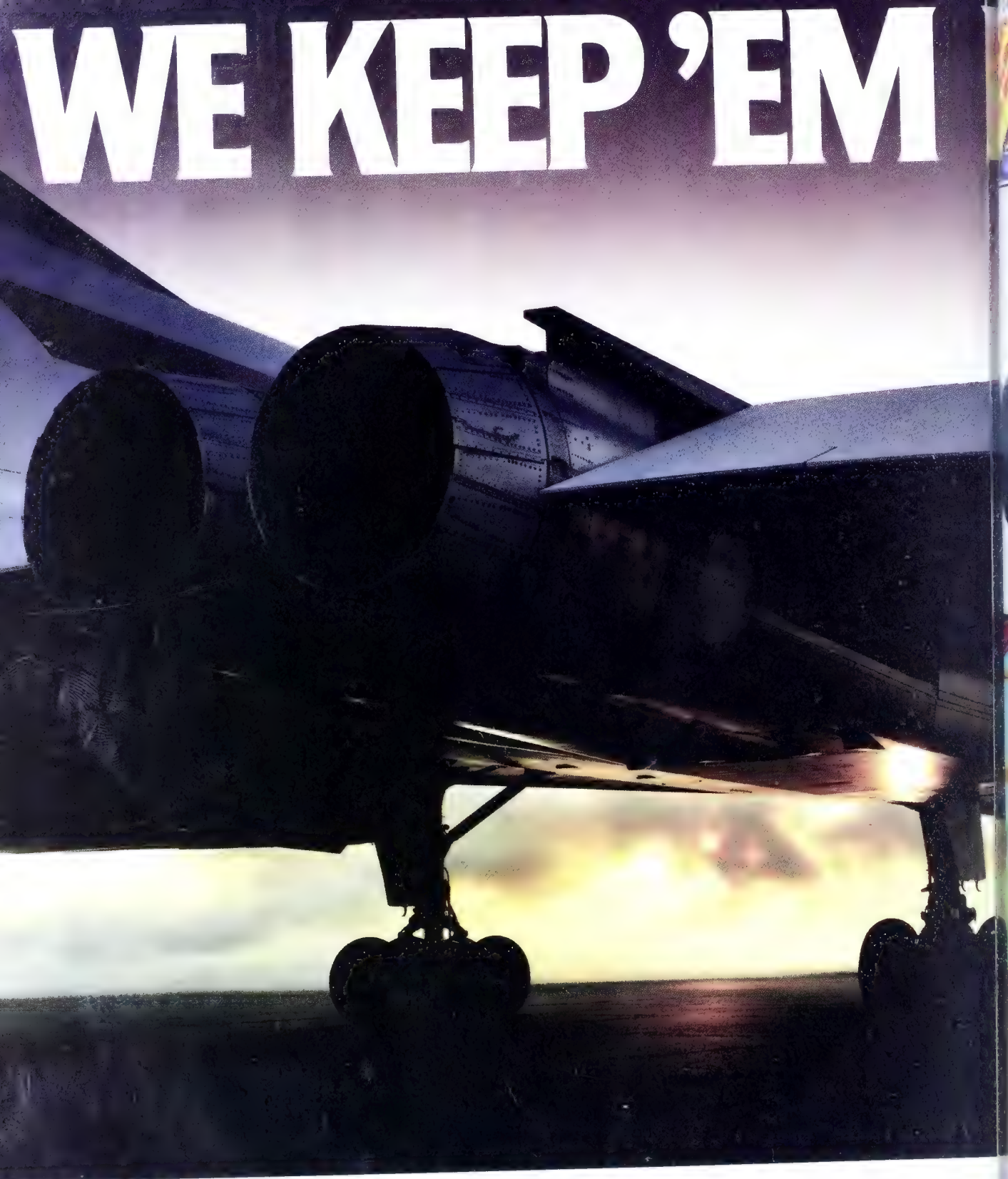

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Without this Crystex® proc tires on a Concorde landing gea wouldn't be feasible. They woul replacement after every touch-do

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September 10

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PAGE 30

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BusinessWeek

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HOME COMPUTERS

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Will They Sell This Time?

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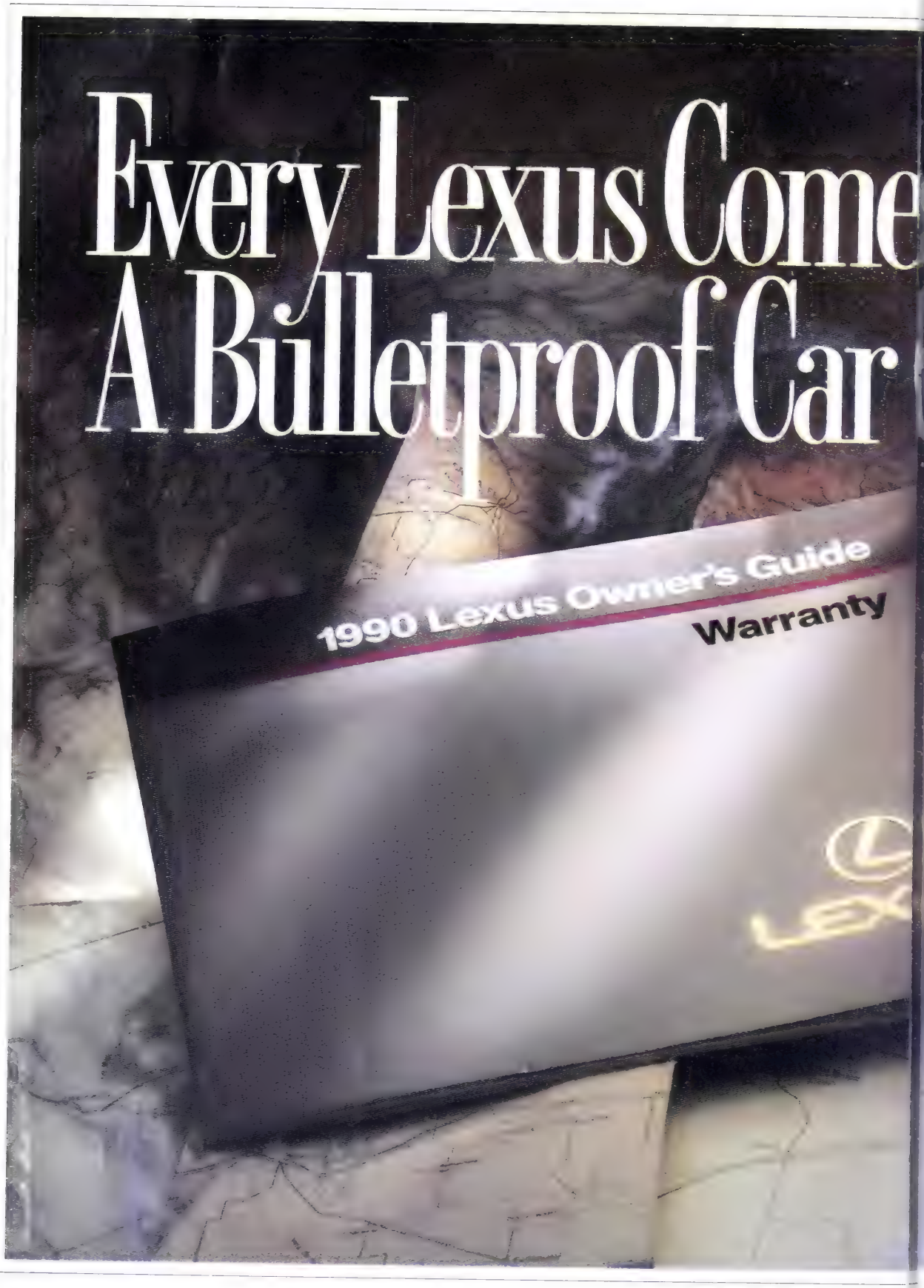
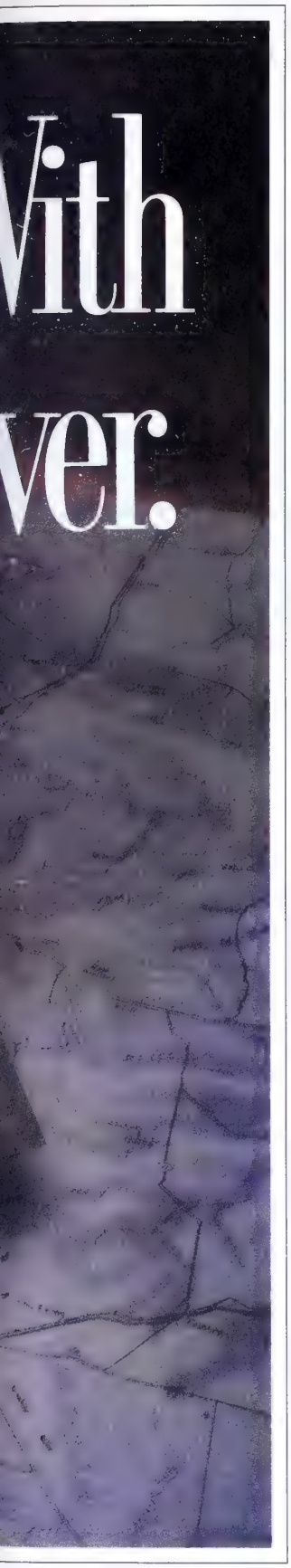

Every Lexus Come
A Bulletproof Car
1990 Lexus Owner's Guide
Warranty



While the Lexus comes with reinforced body panels made of high-strength steel, our limited warranty* comes with material virtually as strong.

Especially when you compare it to the crater-sized gaps evident in some of our competitors' coverage.

At Lexus, your overall coverage, with a minimum of fine print and absolutely no deductibles, extends for 48 months or 50,000 miles. While powertrain coverage extends for 72 months or 70,000 miles.* Far exceeding most of our European counterparts.

And with the Lexus Roadside Assistance Program, you're covered 24 hours a day for a full four years, unlike some of our competitors.

Do you see a pattern developing here?

For more information about our limited warranty package, see your local Lexus dealer. You'll find the only way to get better protection for your car would be to station secret service men around it.

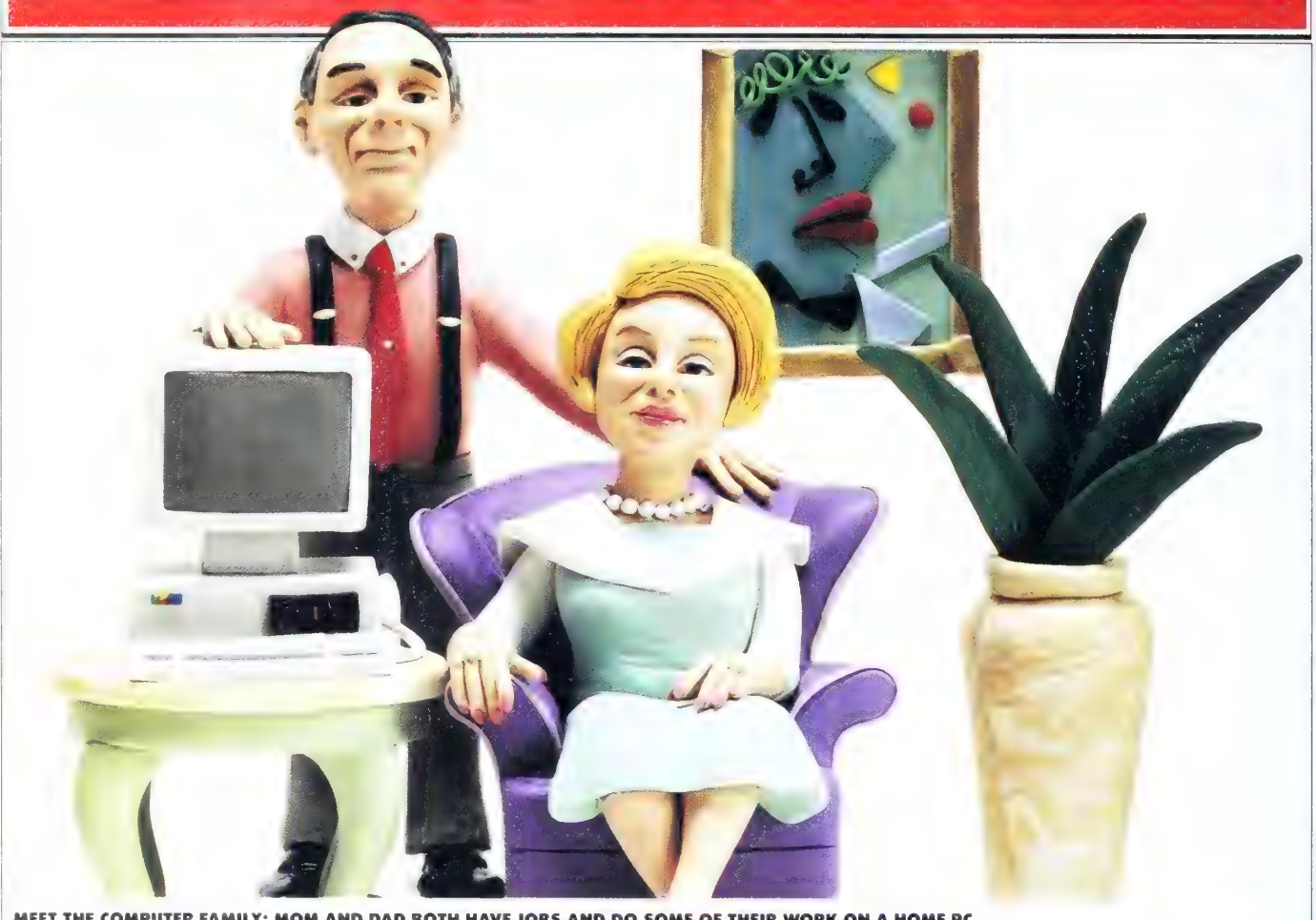
LEXUS

The Relentless Pursuit Of Perfection.

NUMBER 3177

BusinessWeek

SEPTEMBER 10,1990



MEET THE COMPUTER FAMILY: MOM AND DAD BOTH HAVE JOBS AND DO SOME OF THEIR WORK ON A HOME PC

Cover Story

64 HOME COMPUTERS
They'll be 'the consumer product of the decade,' declares IBM. Sound familiar? O. K., you heard it last decade. But this time around, Big Blue, Tandy, and others have done their homework: After studying the new buyer, they've designed friendlier computers and taken most of the anxiety out of shopping. But can they get the new buyer to buy?

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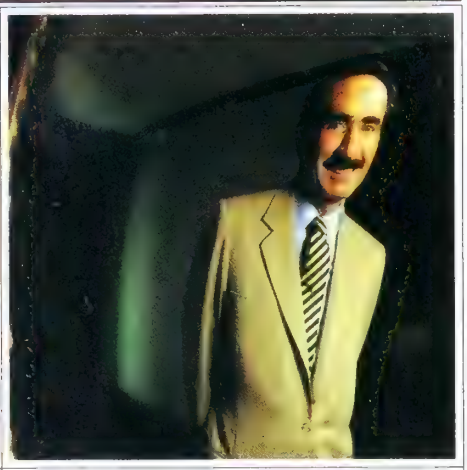

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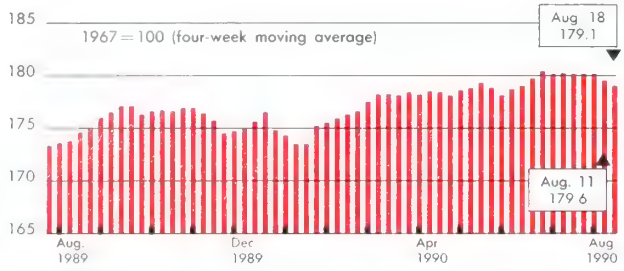
BusinessWeek Index

PRODUCTION

Change from last week: –0.3%
Change from last year: 2.5%

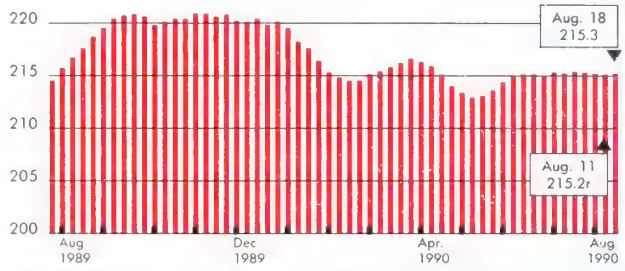


The production index declined for the week ended Aug. 18. On a seasonally adjusted basis, output of autos and trucks was down sharply, reflecting plant closings for model switchovers. Lumber, crude-oil refining, paperboard, and rail-freight traffic were also down. Electric power and steel output increased, and coal and paper production was unchanged for the week. Prior to calculation of the four-week moving average, the index dropped to 178.7, from 179.1 for the week before.

BW production index copyright 1990 by McGraw-Hill Inc.

LEADING

Change from last week: 0.0%
Change from last year: –1.1%



The leading index increased for the week ended Aug. 18, but it remains in a fairly narrow range indicating little pickup in economic growth. A sharp gain in materials prices, a drop in the number of business failures, and faster growth in real estate loans and M2 offset a small rise in bond yields. Stock prices were virtually unchanged for the week. Before calculation of the four-week moving average, the index rose to 216, from 214.9 posted in the previous week.

Leading index copyright 1990 by Center for International Business Cycle Research

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
STEEL (8/25) thous. of net tons	1,937	1,927 #	13.9
AUTOS (8/25) units	106,425	105,628r #	–18.7
TRUCKS (8/25) units	75,681	56,234r #	–4.7
ELECTRIC POWER (8/25) millions of kilowatt-hours	62,261	62,772 #	3.2
CRUDE-OIL REFINING (8/25) thous. of bbl./day	14,143	14,119 #	0.8
COAL (8/18) thous. of net tons	20,521 #	20,206	2.9
PAPERBOARD (8/18) thous. of tons	722.0 #	744.4r	–3.6
PAPER (8/18) thous. of tons	766.0 #	769.0r	2.8
LUMBER (8/18) millions of ft.	451.6 #	478.3	–11.6
RAIL FREIGHT (8/18) billions of ton-miles	20.6 #	20.5	4.6

Sources: American Iron & Steel Inst., *Ward's Automotive Reports*, Edison Electric Inst., American Petroleum Inst., Energy Dept., American Paper Inst., WWPA[1], SFPA[2], Association of American Railroads.

FOREIGN EXCHANGE

	Latest week	Week ago	Year ago
JAPANESE YEN (8/29)	144	146	145
GERMAN MARK (8/29)	1.56	1.55	1.97
BRITISH POUND (8/29)	1.95	1.93	1.56
FRENCH FRANC (8/29)	5.22	5.22	6.65
CANADIAN DOLLAR (8/29)	1.14	1.14	1.18
SWISS FRANC (8/29)	1.29	1.27	1.70
MEXICAN PESO (8/29)[3]	2,886	2,883	2,543

Sources: Major New York banks. Currencies expressed in units per U. S. dollar, except for British pound expressed in dollars.

PRICES

	Latest week	Week ago	% Change year ago
GOLD (8/29) $/troy oz.	384.300	408.750	6.3
STEEL SCRAP (8/28) # 1 heavy, $/ton	118.00	118.00	12.4
FOODSTUFFS (8/27) index, 1967 = 100	216.8	215.4	–0.2
COPPER (8/25) ¢/lb.	135.3	137.8	0.6
ALUMINUM (8/25) ¢/lb.	82.0	81.5	–1.2
WHEAT (8/25) # 2 hard, $/bu.	2.89	2.89	–32.0
COTTON (8/25) strict low middling 1-1/16 in., ¢/lb.	74.50	73.89	6.1

Sources: London Wed. final setting, Chicago mkt., Commodity Research Bureau, *Metals Week*, Kansas City mkt., Memphis mkt

LEADING INDICATORS

	Latest week	Week ago	% Chang year ag
STOCK PRICES (8/24) S&P 500	317.10	335.70	–8.
CORPORATE BOND YIELD, Aaa (8/24)	9.50%	9.37%	5.
INDUSTRIAL MATERIALS PRICES (8/24)	106.2	104.9	2.
BUSINESS FAILURES (8/17)	276	290	7.
REAL ESTATE LOANS (8/15) billions	$380.1	$378.9	10.
MONEY SUPPLY, M2 (8/13) billions	$3,304.2	$3,295.5r	5.
INITIAL CLAIMS, UNEMPLOYMENT (8/11) thous.	366	341	13.

Sources: Standard & Poor's, Moody's, *Journal of Commerce* (index: 1980 = 100), Dun & Bradstreet (failures of large companies), Federal Reserve Board, Labor Dept. CIBCR seasonally adjusts data on business failures and real estate loans.

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Chang year ag
NEW HOME SALES (July) annual rate, thous.	548	561r	–26.
12 LEADING INDICATORS COMPOSITE (July) index	146.1	146.1r	1.
PERSONAL INCOME (July) annual rate, billions	$4,672.4	$4,646.1r	6.
ORDERS FOR DURABLE GOODS: MFG. (July) billions	$128.3	$124.6r	5.

Sources: Commerce Dept.

MONETARY INDICATORS

	Latest week	Week ago	% Chang year ag
MONEY SUPPLY, M1 (8/13)	$814.4	$812.9r	5.
BANKS' BUSINESS LOANS (8/15)	322.6	320.0r	1.
FREE RESERVES (8/22)	–67	267r	NA
NONFINANCIAL COMMERCIAL PAPER (8/15)	146.0	147.2r	18.

Sources: Federal Reserve Board (in billions, except for free reserves, which are expressed fo a two-week period in millions).

MONEY MARKET RATES

	Latest week	Week ago	Year ago
FEDERAL FUNDS (8/28)	8.07%	8.00%	8.96%
PRIME (8/29)	10.00	10.00	10.50
COMMERCIAL PAPER 3-MONTH (8/28)	7.98	7.94	8.67
CERTIFICATES OF DEPOSIT 3-MONTH (8/29)	8.04	8.07	8.79
EURODOLLAR 3-MONTH (8/22)	8.13	7.93	8.83

Sources: Federal Reserve Board, First Boston

# Raw data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipmen
1 = Western Wood Products Assn. 2 = Southern Forest Products Assn. 3 = Free market value NA = Not available r = revised NM = Not meaningful

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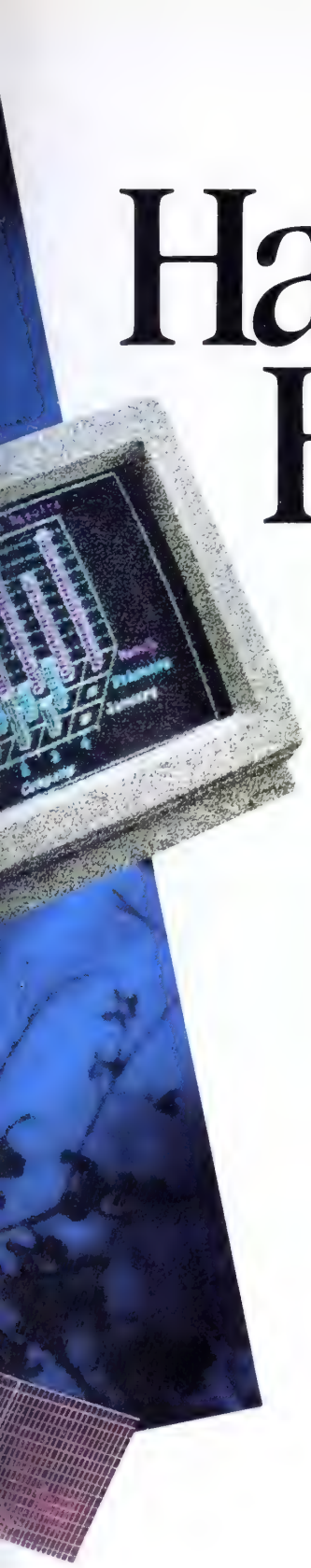

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Readers Report

A LETTER FROM THE POSTMASTER

Your article "Can Tony Frank get postal workers to cut him some slack" (Top of the News, Aug. 27) was at best uninformative and at worst just plain biased. Your reporters were informed of the following (none of which appeared in the article):

Despite substantial increases in mail volume and workload, employment has been reduced during the past 15 months by about 23,000 career workers.

We have had four quarters of substantial productivity increases, with each quarter higher than the one before. These increases, which will total much more than 2% for 1990, are primarily the result of the success of the Postal Service's automation program.

Our loss this year will be about $800 million, or 2% of revenues. This is nothing to be proud of, but considering that we have had no price increase since early 1988, it is not bad, either.

All of these gains have been made without any recent labor negotiation. A favorable labor negotiation will augment these gains.

Your readers should know that the USPS is not "somnolent," "creaky," or inflexible. We are the best and cheapest in the world, and we intend to become even better.

Anthony M. Frank
Postmaster General
Washington

THE SCHEME TO TAX BEER HAS FALLEN FLAT

There are millions of American beer drinkers who would disagree with BUSINESS WEEK's plan to cut the deficit ("We must cut the deficit now: Here's how to do it," Economics, Aug. 6), a plan that depends on regressive new taxes on beer and wine.

The Administration recently floated such a proposal in Washington—a plan that, according to the Congressional Budget Office, would cost the average American family $101 per year, with most of the burden falling unfairly on poor- to middle-income households.

Not surprisingly, Congress beat hasty retreat from the plan, which Representative Jerry Lewis (R-Calif.) called "a big wallop to the middle-income family." Many in Congress recognize that boosting the consumer tax on a product already taxed at three times the rate of most consumer goods isn't fair and makes little economic sense.

The greatest challenge facing congressional budget negotiators is not finding ways to reduce the deficit but, rather, finding ways to do the job fairly. Regressive consumption tax hikes don't even come close to passing that test.

Patrick T. Stoke
Presider
Anheuser Busch In
St. Lou

FREE ELECTRONIC SPEECH: MITCH KAPOR IS RIGHT ON

Your commentary, "Computer anachism calls for a tough response" (Information Processing, Aug. 6), was overtaken by events: The governme withdrew its case against Craig Neido after 1½ days of trial. Thus, Mitch Kapor and Electronic Frontier Foundatio were not "way off base," as governme officials said, but exactly on target.

Nobody, least of all the founders EFF, condones violation of private property or any other criminal activity o line. But the tens of thousands of who use electronic networks to chat an trade opinions (by no stretch of th imagination could anybody call me hacker) were chilled to the bone to d cover that First Amendment protectio don't exist for us when our words a electronic, instead of audible or in prin

Pamela McCordu
Berkeley, Cal

WORLDS OF WONDER WAS NO SHANGRI-LA FOR INVESTORS

Why not publish the fact that even though Worlds of Wonder m eventually emerge from bankrupt ("Don Kingsborough's latest world wonder," Top of the News, June 11) a achieve profitability, pre-bankrupt WOW shareholders will get nothin That's because Kingsborough arrang

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Chrysler Ranked Highest in Customer Satisfaction Among American Car Manufactur

DETROIT–A survey just released by J.D. Power and Associates, an independent research firm, shows that Chrysler has the highest customer satisfaction of any American car comp

The stu

known in the auto industry as CSI, or Customer Satisfaction Index, reflects owners' experiences with both car and dealer in the firs

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1987

Chrysler Again Ranked Higher Than Ford or GM in Customer Satisfaction.

(Continued from Page A1)

second consecutive year, Chrysler outranked both Ford and GM in customer satisfaction with overall product quality and dealer service. A spokesman for the company was quoted as saying, "Frankly, we're not surprised at the outcome. When C

man Lee I

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what matters most to Ameri

Some 23,000 owners of do

cars reported on such cr

cern as problems du

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1988

Chrysler Ranked Highest of Any Domestic Carmaker in Customer Satisfaction Again.

By LELAND ROSEMOND

For the third year in a row, Chrysler nudged out Ford and GM as the American carmaker with the highest levels of customer satisfaction. In a su

public today by J.D. Power a

one of the auto i

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dealer's ability to fix problems on the first visit and number of repair proble

encounter

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1989

Again, Chrysler Ranked Highest in Customer Satisfaction of All American Car Manufacturers.

DETROIT–For an unprecedented fourth straight year, Chrysler outranked both Ford and General Motors in customer satisfaction, according to a study released today by the independent testing firm of J.D. Power and A

ates. The report is based o

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purchased new

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study, called "1987-1990 CSI customer satisfaction with overall product quality and dealer service for 1986-1989 passenger cars," clearly demonstrates

Chry

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1990

NOW THEN, WHICH NEW CAR DID YOU SAY YOU'RE CONSIDERING?

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ime Machine, Run Like Clockwork.

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ggage handling more precise. nether it's something as advanced electronic scanning for accurate rting, or as simple as double-gging bags on connecting flights.

At American Airlines, we understand the importance of efficient ggage handling. Because arriving time at your destination doesn't ean anything if your bags don't.

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a deal that sold all the goods and left nothing for the shareholders—not even a one-for-a-million reverse split. That, at least, would have given shareholders a one-in-a-million chance of recouping.

Allen C. Conti
Broker One—The Investment Center
Canfield, Ohio

HOW TO NURSE SICK HOSPITALS BACK TO HEALTH

At the risk of alienating my colleagues, I must agree with the opinions expressed in "Hospital, heal thyself" (Industries, Aug. 27). Poor management is indeed the chief cause of the current fiscal crisis in hospitals. Unfortunately, administrators take it on the chin when, in fact, middle managers or clinical managers share the blame.

While quality patient care and cost containment aren't necessarily mutually exclusive, there must be a greater understanding between the patient-care needs of the client and the fiscal-care needs of the organization. Managing the bottom line can be successful only if middle managers can deliver quality patient care while controlling costs. Administrators need a deeper understanding of the actual operations of patient-care departments, while clinical managers need more education in finance, cost accounting, and productivity improvements.

The bottom line? Managers at all levels had better get to work. Business, the single largest purchaser of health care, needs to help. And the government must decide just how much money hospitals really need to stay viable.

Patricia H. Stanfill
Executive Director
Memorial Regional Cancer Center
South Bend, Ind.

HELPING CAR DEALERS STAVE OFF BANKRUPTCY

I am moved to respond to the letter from the National Automobile Dealers Assn.'s Tom Webb, "It's no pleasure drive for car dealers" (Readers Report, Aug. 20). It stated that the average car dealer is now losing $247 per new car sold. One has to wonder why dealers don't just close up shop and stay home. But if they insist on staying open and going bankrupt, I have an idea that may help.

I'll just visit a car dealership, almost go to contract, and at the last minute say to the sales manager: "Look, fo $100 I'll go away, and you won't los $247 selling me this car." After repea ing this process 160 times, I'll hav enough money to go to a car dealer an pay him $16,000 in cash for a new ca allowing him to earn a $53 profit.

This way, I'll have helped prevent 16 dealers from going bankrupt by sellin me a car at a loss and will have helpe one to send his kid to college, where h can study economics and learn not to b foolish enough to continue in a busines where losses rise with every sale.

Eric Lane
East Windsor, N.

A 10-YEAR 'EXPANSION' AND NOTHING TO SHOW FOR IT

Let's put the recession ("Are we recession?," Cover Story, Aug. 13)- or depression—on the right doorste It's the Reagan Recession, fostered b Reaganomic greed and triggered by th Reagan Deficit, which was created bloat the Reagan Rich, who, unfort nately, were not wealth-creating entr preneurs, managers, or investors bu gamblers, crooks, and speculators wh squandered their government gimmee

It's time you took presentat

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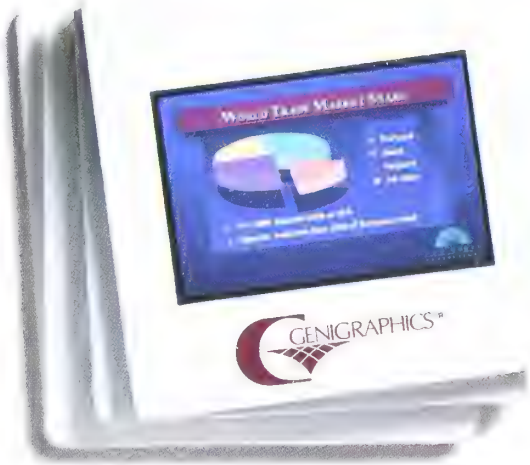

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What is really terrible is that all these st trillions accomplished nothing be- nd a 10-year lost weekend: Our idges are collapsing, the poor are a elling legion, and Johnny still can't ad. And, as usual, the robbed and mmeled working person will be the e to pay for it all and suffer the most ossibly joining the ranks of the Rea- n Homeless), since he couldn't afford put by many gold certificates—after flation—under two successive wage- ppressing Administrations.

James W. Mooney
Jacksonville, Fla.

Some glaring numbers stand out in your article. Credit-card charges of 2,000 for "frivolous" spending, home lues going from $180,000 to $425,000 a mere five years—incredible. We are t going into a recession, we are finally hieving a period of normalcy.

Charlotte Fauth
Chicago

HUMBS UP OR DNA FINGERPRINTING

Your article, "Genetic fingerprints aren't always so foolproof" (Science Technology, Aug. 6), says "... geneti- sts have just tossed in another monkey wrench. What if genetic polymorphisms are not always independent traits?" Geneticists, scientists, and others concerned about DNA fingerprinting have been confronting this issue for many years, and it is the basis for many studies. The evidence to date appears to confirm that DNA fingerprinting is a reliable method of distinguishing between two individuals—even in ethnic subgroups—whether the chance of those two individuals having the same four polymorphisms is 1 in 10 million or 1 in 250,000.

Second, the item states that "DNA fingerprinting is a controversial technique being advocated as a nearly foolproof way to identify criminals." While this implies that DNA fingerprinting is a technique that is struggling for acceptance, nothing could be further from the truth.

DNA fingerprinting is a recognized and well-respected methodology within the scientific community. DNA is accepted as evidence in courtrooms throughout the U. S. and the world and is endorsed by the American Society of Human Genetics, the American Association of Blood Banks, the International Society of Forensic Haemogenetics, and the California Association of Crime Laboratory Directors. DNA fingerprinting is used not only to include, but also to exclude, criminal suspects.

In fact, the FBI Laboratory recently reported that genetic evidence has excluded the suspects in 36% of the sexual-assault cases it has analyzed. Additionally, DNA fingerprinting is used to conclusively determine paternity in child-support cases.

Daniel D. Garner
Vice-President
Cellmark Diagnostics
Germantown, Md.

CORRECTIONS & CLARIFICATIONS

In "Does Gillette know how to treat a lady?" (Marketing, Aug. 27), we said the company would be combining its shaving and personal-care sales forces. The sales forces will remain separate.

In a table that accompanied "Welcome to the woman-friendly company" (Cover Story, Aug. 6), we said Reader's Digest has three women on its board. It has none.

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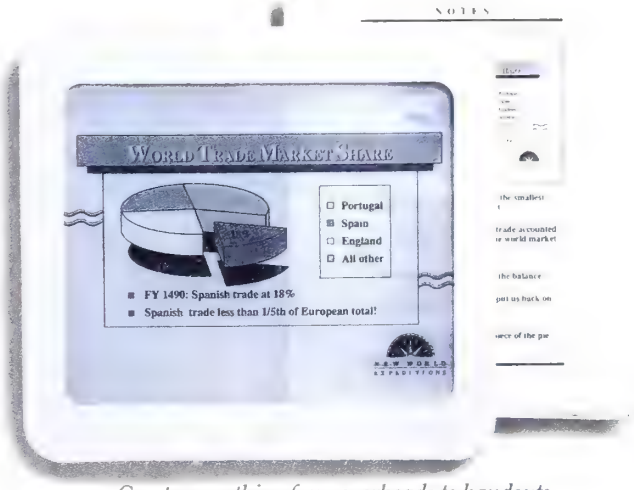

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BOOK BRIEFS

POP'S GREASED PALMS

HIT MEN
By Fredric Dannen
Times Books • 387pp • $19.95

Fredric Dannen begins his book, *Hit Men: Power Brokers and Fast Money Inside the Music Business*, with a chilling tale. Back in February, 1980, then-CBS record executive Dick Asher tried an experiment. He wanted to see if he could get a single played on Top 40 radio in Los Angeles without forking over the dough usually paid to independent promoters. Surely, he figured, local stations, whom the "indies" are paid to influence, couldn't afford to ignore Pink Floyd's *Another Brick in the Wall, Part Two*—the No. 1 hit almost everywhere else. They could, and they did. When Asher finally hired the indies, the tune hit the airwaves—and the top of the charts.

So Dannen introduces us to "the Network," a loose alliance of independent promoters who use payola—in the forms of money, drugs, or hookers—to get records airplay. He also takes us inside the big record companies that have propped the Network up, tracing the relationship back to Big Band days and chronicling the payola scandals since then. The subject is certainly topical, since one of the book's subjects, once-powerful Beverly Hills (Calif.) promoter Joseph Isgro, was indicted in 1987 on payola, racketeering, and other charges and has just gone on trial in Los Angeles.

But this is more than the story of payola. Dannen tries to bring to life a parade of record men. He does best with the executives of CBS Records Inc., from pre-rock's Goddard Lieberson to rock impresario and tax cheat Clive Davis to Walter Yetnikoff, whom Dannen depicts as a foulmouthed dealmaker whose forte is raiding talent rather than developing it. Unfortunately, in trying to cover so much ground, Dannen has produced a disorganized book that lacks focus. Still, *Hit Men*, well researched and chock-full of juicy tidbits, imparts a vivid sense of the record industry's slimy side.

BY SUSAN DUFFY

UNTANGLING WEDTECH

FEEDING THE BEAST
By Marilyn W. Thompson
Charles Scribner's Sons • 337pp • $22.50

TOO GOOD TO BE TRUE
James Traub
Doubleday • 379pp • $21.95

As a running news story, the Wedtech scandal was hard to beat. Its characters ranged from uncouth metal-benders to Washington smoothies, even an evangelical minister. Its locales shifted from the defense contractor's South Bronx (N. Y.) base to the White House to Israel, with several stops in between.

But the complexity that made daily installments of the tale so enthralling is hard to contain within the covers of a book. It's a shame that New York *Daily News* reporter Marilyn Thompson hasn't wrestled the saga's disparate elements into a coherent narrative. Thompson broke the story—leaving many other journalists, me included, breathlessly chasing behind. But *Feeding the Beast: How Wedtech Became the Most Corrupt Little Company in America* can't decide if it's a history of the company, an analysis of how Wedtech's top brass snookered a Reagan Administration that was all too willing to be gulled, or a recounting of how Thompson managed to scoop the rest of world. Her confusing, abysmally edited book tries and fails to encompass all three stories.

But freelance journalist James Traub has brought order to this complicated saga. His *Too Good To Be True: The Outlandish Story of Wedtech* is far superior to both *Feeding the Beast* and an earlier Wedtech book, *Feeding Frenzy* by William Sternberg and Matthew C. Harrison Jr. In deft and often hilarious style, Traub untangles the many sordid subplots, such as how the scandal almost undid Attorney General Edwin Meese III. As a favor to a friend, Meese jawboned various U. S. agencies into giving Wedtech government contracts it couldn't perform, then let a company director manage his investments. That director later went to prison for his role in the scandal.

Traub needs less than a sentence to frame an epitaph for the Wedtech mess: "... in the contest between the rules of governance and the rules of politics, governance never had a chance."

BY HARRIS COLLINGWOOD

ED MEESE: FAVORS TO A FRIEND

KEYSTONE KLEANUP

IN THE WAKE OF THE EXXON VALDEZ
By Art Davidson
Sierra Club Books • 333pp • $19.95

If you're searching for an unbiased account of the ravaging effects of last year's Alaska oil spill, you might not run to a book from the Sierra Club. Yet that's who published this objective, often gripping, account of the across-the-board screwups, bureaucratic timidity, and stunning lack of cooperation that led to the befouling of one of the world's most spectacular scenic areas.

Indeed, what comes through most clearly in Art Davidson's *In the Wake of the Exxon Valdez: The Devastating Impact of the Alaska Oil Spill* is that Exxon Corp. alone does not bear the blame—even though it was Exxon's ship that struck Bligh Reef on Mar. 24, 1989, and sent some 11 million gallons of crude oozing into Prince William Sound. Nor was Exxon alone to blame for the many misguided attempts to put things right. Everyone from Alyeska Pipeline Service Co. to Alaska's Environmental Conservation Dept. to environmentalists and the timid U. S. Fish & Wildlife Service contributed. Davidson's account of the almost unbelievably stupid, uncooperative acts by agencies and officials is maddening. At the same time, Davidson makes it clear that, given such a huge spill, there was no way to avoid many of the pitfalls that beset the cleanup.

Davidson, a former natural-resource planning director for Alaska, follows the spill to the villages and rocks of the Kenai Fjords, Kachemak Bay, and Kodiak Island, detailing the damage to seabirds, otters, eagles, and shorelines. Unfortunately, one feels inclined to skip these chapters, since many of the same things happened wherever the oil went.

ıt the special strength of this book is
at it conveys more than the facts
out the Valdez disaster. Readers are
ft with a sense of how things can go
rong in any time of crisis, anywhere.
BY ROBERT BUDERI

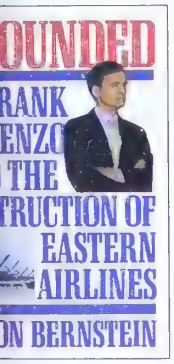
BUSINESS WEEK WRITERS

ASTERN'S AGONY

ROUNDED
Aaron Bernstein
mon & Schuster • 256pp • $19.95

Keeping track of the crises at Eastern Air Lines Inc. in the 1980s wasn't easy. Although Eastern as hobbled by debt when the decade egan, it looked for a time as though resident Frank Borman, the former asonaut, might overcome that liability d a history of labor confrontation. Instead, Borman left, humiliated, in 1986, hen the carrier was sold as distressed erchandise to Texas Air Corp.'s Frank orenzo. After a series of clashes with nions led to a strike in 1989, Lorenzo unged Eastern into Chapter 11 before eing forced out by an exasperated nkruptcy judge. Recently, Lorenzo deded to cash out of the industry.

Now, Eastern struggles on under a urt-appointed trustee. But in *Ground-: Frank Lorenzo and the Destruction of Eastern Airlines*, BUSINESS WEEK labor editor Aaron Bernstein concludes the carrier is doomed. He puts most of the blame on Lorenzo's high-handed management style. However, union leaders, particularly Charles E. Bryan of the International Association of Machinists & erospace Workers, also come in for riticism. While union leaders "won" hen Lorenzo left, says Bernstein, it as a Pyrrhic victory for their members: lost have lost their Eastern jobs.



Even before Lorenzo won control, the achinist and pilot unions frantically ought other buyers—a search they insified once he took over. While Bernein thinks former Baseball Commisioner Peter Ueberroth's buyout efforts ailed because Lorenzo constantly deanded to renegotiate terms, the simulaneous intrigues of the union heads and heir advisers add a tragicomic overlay.

In addition to repudiating Lorenzo's ough methods, Bernstein details how he prospect of a buyout—never realzed—contributed to union intransigence. Bernstein's one clear message: There re no heroes in Eastern's demise.

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LAND OF THE FREE, BUT NOT OF THE FREE MARKET

BY ALAN S. BLINDER

Look, either we believe in market capitalism, or we don't. If we do, lay off the oil companies: They're just doing what comes naturally under the system we espouse

Here's a test of your understanding of and belief in market capitalism. Suppose a crisis in the Middle East reduces the world supply of oil. Is it fair for oil companies to raise their retail prices? If they do, should the government intervene to hold prices down?

The correct answer to the first question may be a matter of semantics. Life, after all, isn't fair, and luck is not always ladylike under market capitalism. Is it fair when the market makes your business fail? Or lowers your real wages? But if "fair" means playing by the rules, the answer should clearly be yes.

The second question constitutes the true test of your belief in market capitalism. Shifts in the balance of supply and demand sometimes tilt markets in favor of sellers, sometimes in favor of buyers. It is the essence of market capitalism that the government should interfere only when there is a good reason—like fraud, or price rigging, or a need to protect the poor. (In the latter case, income support is normally better than price fixing.)

FLUNKING GRADES. Americans allegedly believe in market capitalism. Yet last month, they flunked this test royally. The American public clamored against higher gasoline prices and urged their government to do something about it. These are the kinds of responses we might expect from Russians. And they came not just from the average Joe and Jane at the gas pump but also from Republican senators and even a Republican President.

Let's think about what should have happened when Iraq invaded Kuwait and an embargo ensued. Since almost 6% of the supply of oil was (probably) taken off the market, the world price of oil should have risen to signal greater scarcity. Consumers should have responded with frowns and by using less. Producers should have responded with (hidden) smiles and, where possible, by producing more. (Are you listening, Venezuela?) That's how a market adjusts—and the sooner the better.

The above more or less describes what happened in early August. The price increase at the pump approximated the cost increase for crude oil. (An additional $6 per barrel translates into about 14¢ more per gallon.) Yet the outcry against "greedy" oil companies was near unanimous, and threats of retribution from Washington were frequent.

People seemed most upset by the unseemly speed with which domestic gasoline prices rose—before any of the more expensive foreign oil could have reached our shores. Price gouging? It would seem so. But, when you think about it this is a strange argument for Americans to make.

First, windfall gains and losses are part of our vaunted free enterprise system. In this case, events beyond the control of the oil companies raised the value of something they owned (oil in tanks). They were lucky. But does that mean the government should prevent them from reaping the gains? If so, the same logic argues for a 100% tax on capital gains—and for subsidies to oil companies when crude prices fall.

Second, sellers of gasoline quickly knew—or could reasonably assume—that each gallon they sold would have to be replaced by a more costly gallon. Why, then, should they be expected to sell cheap and buy dear? Aren't they in business to make a profit?

Third, the popular view that it's permissible to charge more for products made from "new" oil arriving from abroad but not for "old" oil that has been here for a while is logically flawed. For example, it runs afoul of the awkward fact that half the oil we use has been here since the Paleozoic era. Since your car or furnace cannot tell old oil from new oil, the two commodities must command the same price in a free market. If we try to impose different prices, as we did in 1974, we will be led to some pretty crazy policies, as we were in 197

SPLIT OPINION. The public outcry over gasoline prices was amazing but not surprising. A few months ago, Yale University economist Robert J. Shiller and two Soviet social scientists, Maxim Boycko and Vladimir Korobov, posed a series of questions about free markets to randomly selected New Yorkers and Muscovites. One of their questions asked whether it is fair for flower prices to rise on holidays, when demand is exceptionally high. Not unexpectedly, 66% of the Russians said it was unfair. But so did 68% of the Americans! This result parallels findings from a survey of Canadians about six years ago in which 82% of respondents thought it unfair for a hardware store to raise the price of snow shovels after a snowstorm.

Overall, Shiller and his colleagues found that popular attitudes toward markets and prices are remarkably similar in the U. S. and the Soviet Union. Yet there were some significant differences. For example, 54% of the Muscovites but only 28% of the New Yorkers thought the government should intervene to hold flower prices down even if it caused a shortage.

This and other survey results point to a tentative conclusion: Americans practice market capitalism and preach it, but deep down, they don't really believe in

ALAN S. BLINDER IS THE GORDON S. RENTSCHLER MEMORIAL PROFESSOR OF ECONOMICS AT PRINCETON AND THE AUTHOR OF *HARD HEADS, SOFT HEARTS*

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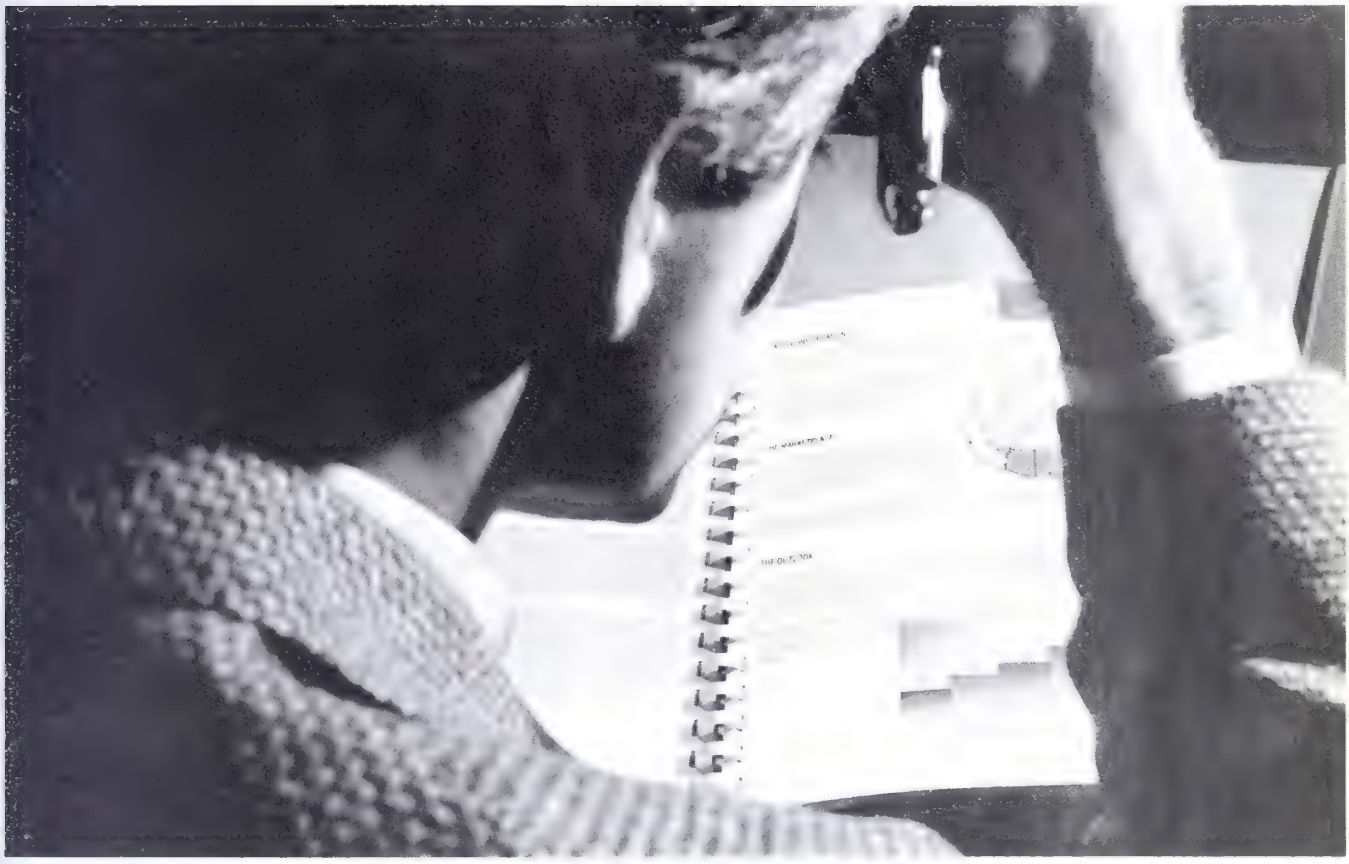

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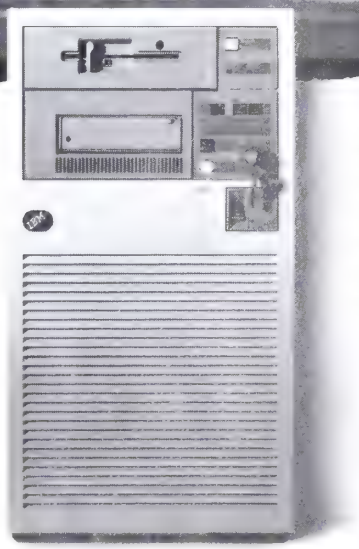

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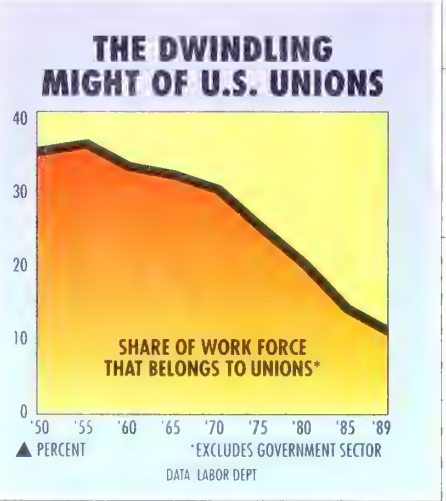
BY GENE KORETZ

WHY UNIONS THRIVE ABROAD—BUT WITHER IN THE U.S.

Labor Day was once an occasion for organized labor to indulge in self-congratulation and strut its stuff. No more. Over the past decade, Labor Day celebrations among rank-and-filers have taken on a subdued, almost funereal air, as many unions have found themselves struggling simply to survive.

Big Labor's fall from grace has been stark and unrelenting. Since 1970, the unionized share of the private work force has shrunk so rapidly that it now stands at about 12%—only a third of its size in the mid-1950s (chart). Even counting government employees, only 16% of workers now belong to unions—the lowest level in at least 50 years.



Perhaps the most surpising aspect of this trend is that it seems to be a distinctly American phenomenon. As economists David Blanchflower and Richard Freeman point out in a recent National Bureau of Economic Research working paper, the average proportion of unionized workers among 17 major industrialized competitors of the U. S. actually increased from 48% in 1970 to 53% in 1987.

"Although unionization fell in some countries in the 1980s," says Freeman, "no country has suffered the kind of consistent, precipitous drop experienced by the U. S."

Why has unionism waned in the U. S. while maintaining its strength overseas? Blanchflower and Freeman note that unions in all countries have been under increased pressure in recent decades in the wake of slowing productivity and economic growth, rapid technical change, and a shift in favor of free-market ideology. The critical difference between U. S. unions and their counterparts overseas, they believe, is that U. S. unions have managed to win much higher wages for their members than those received by nonunion workers. And that gap—about 20% to 25% compared with 10% or less abroad—has given U. S. employers a huge incentive to oppose trade unions and set up nonunion operations.

The two economists point out that foreign unions are generally less adversarial in their relations with management. They are also often less focused on wage gains and more involved in worker councils and plant-level decision-making.

Unless U. S. unions accelerate their efforts to move in similar directions and temper their "monopoly wage advantages," warn Blanchflower and Freeman, their influence in the U. S. economy is likely to shrink even further.

THE CZECHS WANT CAPITALISM, AND THEY WANT IT NOW

If the recent Jackson Hole (Wyo.) conference of central bankers and economists sponsored by the Federal Reserve Bank of Kansas City made anything clear, it was that the most ardent disciples of Adam Smith may reside in the suddenly liberated economies of Eastern Europe. In an impassioned speech at the gathering, Vaclav Klaus, the Finance Minister of Czechoslovakia, vowed to invigorate his nation's plodding, inefficient economy by embracing the "invisible hand of the market."

The Czech economist stressed the need to abolish central planning, dismantle price and wage controls, and privatize industry as rapidly as possible. Moving gradually, he told his audience, would provide an excuse for the "beneficiaries of socialism to do nothing."

Thus far, Klaus's cold-turkey approach seems to be winning the day in Czechoslovakia despite tough opposition. The government has already devalued its currency, cut subsidies to consumers and producers, and eliminated state planning and price-setting bodies. The federal budget is running a surplus, and the central bank has cut monetary growth to zero.

The big question is whether suddenly freeing prices and wages and opening Czechoslovakia to imports will cause inflation to take off. Many economists think not, pointing out that money is tight, and that Czechs do not hold hoards of koruny that would send prices soaring once price controls are scrapped.

Indeed, the main threat to Czechoslovakia's experiment in instant capitalism may come from overseas. Since his nation imports all of its oil, Klaus concedes that "the oil crisis is a tragedy for us."

With Seymour Zucker in Jackson Hole

HOW THE SOVIETS CAN HANDLE THOSE HOARDED RUBLES

While cash hoards are low in Czechoslovakia, they are huge in the Soviet Union, whose citizens are estimated to have stashed away somewhere between 100 billion and 500 billion rubles. That means that freeing prices would surely result in runaway inflation as consumers chase goods with fistfuls of currency. The solution, says Martin Feldstein of Harvard University, who addressed the Jackson Hole conference is to neutralize the ruble overhang.

One possible tack is currency reform replacing the old ruble with a new one But this might weaken Russians' confidence in the efficacy of capitalism. A better answer, says Feldstein, would be to raise interest rates dramatically.

Currently, interest rates on savings are set at about 2%, while the true rate of inflation is running at least double the official estimate of 7.5%, according to experts. By offering state bonds tied to true inflation, says Feldstein, the government could reduce the currency overhang—and keep inflation in check—since the bonds would then compete with goods for consumers' rubles.

ARE HOUSING COSTS LEADING THE INFLATION NUMBERS ASTRAY?

An anomaly in the consumer price index may be overstating inflation In June and July, the CPI shelter component—which accounts for nearly 28% of the index—jumped at an 11.3% annual rate. Yet housing starts and permits home sales, vacancy rates, and the like indicate that housing is in a recession.

The shelter component of the CPI is dominated by something called "owners' equivalent rent," which purportedly measures what homeowners would be shelling out if they rented their homes instead of owning them. Since actual rents have not surged in recent months economists think there's a good chance that the suspicious jump in owners' equivalent rent will disappear in future months, bringing shelter costs more in line with other housing prices. ■

EPTEMBER 10, 1990

BY JAMES C. COOPER AND KATHLEEN MADIGAN

EVERYONE'S WAITING—AND THAT COULD SINK THE ECONOMY

The uncertainties surrounding the Mideast crisis are casting a pall over the outlook for the recession-prone U. S. economy. A peaceful resolution could uarantee the supply of oil and improve the expansion's ances of reaching its eighth anniversary in November. ut consumers, businesses, and investors alike are brac- g for a war that could send crude prices soaring and eate an economic morass of inflation and recession.

IRAQ SHOOTS DOWN ONSUMER OPTIMISM

The slightest hint of either scenario is sending prices of oil, stocks, and bonds up and down like yo-yos. After hitting $32 per barrel on Aug. 22, oil prices have retreated in recent days, following OPEC's Aug. 28 agreement to boost output. But the threat of war damage to the Saudi Arabian oil fields is preventing any big decline.

The Federal Reserve Board as investors in the dark about its next move. The Fed, aught between price pressures and a sick economy, pparently decided to do nothing at its Aug. 21 meeting. opted to let the gulf crisis play out a little further and erhaps to have a look at the August employment report n Sept. 7 before taking action to ease policy.

In such an explosive climate, businesses are having a ard time committing money to new plants and equip- ent, especially in the face of lean profits and weak rders. And consumers may be getting worried enough fold up their wallets and run for cover.

SHOPPERS ARE WORRIED ABOUT WAR

That's the biggest concern right now. If events in the Middle East cause consumers to retreat from the malls to the sidelines, a recession seems a sure thing. here's still no hard evidence that the crisis has had an mpact on spending, but the latest reading of consumer ptimism will make retailers feel downright queasy.

The Conference Board's index of consumer confidence lunged in August to its lowest level in more than seven ears (chart). The drop, nearly 18%, was much larger han the 12% decline registered just after the 1987 stock narket crash. The board's survey didn't ask specific uestions about the Middle East crisis, but the sharp lide suggests that it is uppermost in consumers' minds.

Even before the oil shock, confidence had been in a teady decline, largely because of sinking optimism in he recession-racked Northeast. But in August, consum- rs in every region were decidedly more pessimistic about both current and future economic conditions.

The pre-crisis decline in consumer confidence partly reflected the nationwide pinch of a sluggish economy. That's evident from the latest July data. The government's index of leading indicators was flat, and sales of new single-family homes fell 2.3%, to an annual rate of 548,000—a staggering 26% below last year's pace. Factory orders for durable goods did post a 2.9% gain in July, but that didn't make up for the 3.2% drop in June. New orders have gone nowhere since early 1989.

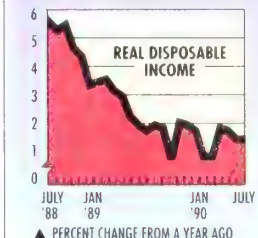
Against that backdrop, it's no wonder that shoppers were already growing wary. Consumer spending increased 0.5% in July, but adjusted for inflation, the gain was only 0.2%. Services are still the main support, while real spending on goods remains lackluster.

PAYCHECKS ARE LOSING THEIR PUNCH

Incomes are the reason. Through July, personal income was still growing at a healthy rate, but households were paying out more to cover higher prices and rising taxes, particularly at the state level. Personal income increased a strong 0.6% in July, to an annual rate of $4,672.4 billion. But after taxes and price changes, real disposable earnings were up just 0.3%.

Transfer payments, including Social Security and unemployment benefits, have begun growing rapidly. Such income has risen 8.9% over the past year, much faster than the 5.8% gain of all other earnings. While that gives consumers more money, it doesn't augur well for the expansion. Transfer payments usually start to outpace other income growth right before a recession.

INCOME GROWTH TAPERS OFF



Other than transfer payments, personal income is unlikely to rise very fast for the rest of the year. Job growth will remain weak, holding back gains in wages and salaries. And lower short-term interest rates will retard growth in interest income, which has slowed dramatically since last year.

But rising inflation and taxes will take an even bigger bite out of paychecks in coming months. That means real disposable income will grow at a pace even weaker than its sluggish 1.6% advance in the 12 months ended in July (chart). This will hold the line on how much consumers can increase their spending. Higher oil prices and rumors of war will only make shoppers more cautious.

Some of this caution may be unfounded, though. Gaso-

line prices now are back only to where they were in 1985. And after adjusting for overall inflation, filling up costs about the same as it did in 1974—the real price of a barrel of oil is no higher than it was then. In fact, oil would have to rise to more than $60 per barrel for its real price to equal the peak hit back in 1979.

The average household spends just 3.5% of its budget on gasoline. Even a 20% rise in gas prices means that $17.2 billion, or less than 0.5% of consumer spending, must be shifted away from purchases of other goods and services to buy the same volume of gasoline that drivers bought in July. Moreover, consumers already were cutting back on gas buying before the Iraqi invasion. Real purchases of gasoline so far this year are down 2.6% from their peak of this expansion in 1986.

So far, there's little to indicate that the gulf crisis has affected spending. Sales of new domestically made cars in the first 20 days of August stood at a 6.8 million annual rate. That's down from the 7.1 million pace of July, but on a par with the second-quarter average.

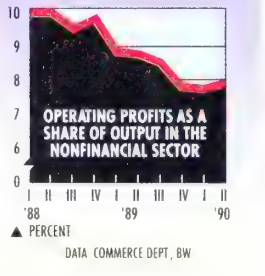
If the crisis escalates into a shooting war, however, consumers may decide to postpone some purchases, especially big-ticket items. And if the confrontation extends much into the autumn, consumers—and retailers—could face a blue Christmas.

BUSINESS CINCHES ITS BELT

Consumers aren't the only ones singing the blues about incomes. Corporate profits were equally uninspiring before the oil shock. Now, passing along bigger fuel bills in an environment of weak demand and tough competition will squeeze bottom lines even more.

Profits from current operations scored a gain of $9.7 billion last quarter, compared with first-quarter earnings. But that was little consolation. They remained below their year-earlier pace for the sixth consecutive quarter and are down 12.3% from their peak in the fourth quarter of 1988. The trends of reported earnings, both before and after taxes, are equally moribund.

With the economy leaning toward recession, profits are likely to get worse before they get better. Many highly leveraged companies will face additional troubles as they try to service their debt (page 76). And even businesses with healthy balance sheets will be hard-pressed to come up with funds for new capital projects.



During the past year and a half, the biggest problem with earnings was the erosion of margins. Productivity growth was too poor to offset rising labor costs. By the second quarter, margins seemed to stabilize, but the problem now has shifted to the revenue side, as a result of the economywide slowdown in demand.

The average margin for nonfinancial corporations edged higher last quarter, to 7.9%, but that was the first uptick in more than two years (chart). Margins are still far below the peak of 10.3% hit in the third quarter of 1987. Last quarter's reading was characteristic of past recessions.

The poor outlook for earnings should make heavily indebted companies especially squirmy. As a whole, nonfinancial corporations are ill prepared to service debts in the event of even a mild recession. In the second quarter, net interest payments equaled nearly 28% of gross cash flow—a level surpassed only in the depths of the 1973-75 recession.

When the oil shock hit, most economists believed the extent of its impact could mean the difference between sluggish growth and recession. But with the pallid outlook for consumer and business spending and the risks inherent in a highly leveraged economy, the oil shock might well mean the difference between a mild recession and a severe one.

THE WEEK AHEAD

NAPM SURVEY

Tuesday, Sept. 4, 10 a.m.
The August index of business activity compiled by the National Association of Purchasing Management is expected to rise to about 47.9% from 47.4% in July. The low reading for both months would place industrial activity for this quarter far below its second-quarter pace, when the NAPM index averaged 50.7%.

CONSTRUCTION SPENDING

Tuesday, Sept. 4, 10 a.m.
Construction spending likely fell by 0.5% in July, according to a survey of economists done by MMS International, a division of McGraw-Hill Inc. The drop, suggested by the 2.6% fall in housing starts, would be the fourth consecutive monthly decline for building outlays.

CAPITAL SPENDING

Thursday, Sept. 6, 8:30 a.m.
The Commerce Dept.'s survey of capital budgets, made in July and August, will probably show that spending on plant and equipment by nonfarm businesses was scaled back from the projected 1990 rise of 6.7% planned when Commerce did its last survey in April and May. That was down from the 7.8% rise projected in the January-to-March report, and from the 10.4% gain of 1989. Although some companies responded before the gulf crisis, other economic problems, particularly slack demand, caused businesses to cut capital investments.

EMPLOYMENT

Friday, Sept. 7, 8:30 a.m.
Nonfarm jobs probably fell by about 55,000 in August. Excluding layoffs of government census workers, payrolls likely rose by only about 58,000. In July, payrolls dropped by 219,000, of which 175,000 were census workers. However, the August report will include revisions back to 1987, which will shift the July job data. The August unemployment rate is expected to remain at July's 5.5%.

INSTALLMENT CREDIT

Friday, Sept. 7
Consumer credit probably increased by about $1 billion in July. In June, installment debt grew by $463 million.

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Auto Bild magazine, December 23, 1989

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SEPTEMBER 10, 1990

THE IRAQ CRISIS

GLOBAL FALLOUT

THE IRAQ MESS WILL CLOBBER WORLD ECONOMIES

As the Persian Gulf crisis entered its fourth week, a peace lull hit. President Bush and Iraqi leader Saddam Hussein muted their bellicose rhetoric to let U. N. Secretary-General Javier Pérez de Cuéllar try his hand at mediation. The news sent panicked oil traders diving for cover. Prices fell $4 a barrel, enough to bring even bottomed-out stock and bond markets up for air. But if war is off for now—or permanently—the cost to the world economy of Saddam's invasion of Kuwait is already far higher than many Americans, Europeans, and Japanese initially thought.

After nearly seven years of safe, uninterrupted growth, the global economy is taking a serious hit. Most governments, businesses, and consumers confidently expected oil prices to remain at $18 a barrel. Now, the daunting prospect of crude stuck at $27 or $30 a barrel and long-term interest rates pushing 10% is dashing hopes that the booming '90s belong to Europe and Asia (table). Now, the question is: What boom?

Also fading fast are hopes that Europe and Japan are ready to shoulder more of the burden of global political leadership that comes along with economic superpower status. With Bonn and Tokyo offering limited aid to America's costly military effort in the gulf (page 32), the U. S. is picking up the tab. Japan has been "too slow to act," admits Kazuo Aichi, head of the Liberal Democratic Party's International Bureau. If the world economy stalls, some even wonder whether the Japanese and Germans will be willing to stimulate to get things going again.

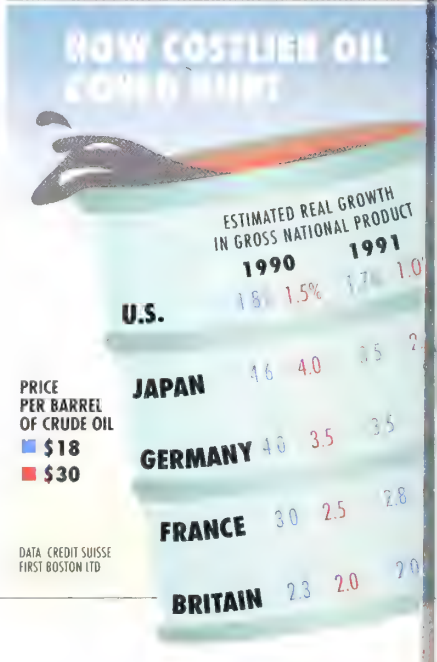
Amid the leadership debate, the question of how much the gulf crisis will hurt consumer sentiment is being watched carefully. With OPEC hiking output, oil prices could retreat to $25 or less later this year—something some cartel members vow to resist. But General Electric Co. Chief Economist Walter Joelson worries that even $25 oil could "condemn us to stagnation."

Or worse. In the U. S., an already weak economy now has to bear the $1.5 billion-a-month cost of the gulf military buildup, and a recession seems inescapable. With the Conference Board's consumer confidence index in August taking its steepest plunge since 1983, some seers, such as Christopher P. Varvares of the St. Louis-based forecaster Laurence H. Meyer & Associates, believe the U. S. economy could shrink at a sharp, 2.1% annual rate in the fourth quarter.

ON THE BRINK. Abroad, slowing corporate profits are giving forecasters the willies. Europe is turning out to be the biggest surprise. Gripped by 1992 mania, many dazzled Europeans had chosen to overlook strains developing in their economies even before Saddam's troops entered Kuwait. But now, Western Europe is facing growing signs of overcapacity in autos, steel, chemicals, and paper. High interest rates engineered by West Germany's Bundesbank to keep inflation at bay are biting. And most of Eastern Europe is already in recession as countries shift from communism to capitalism. All of a sudden, "the vision of the European growth decade has been dealt a blow," says Giles Keating of Crédit Suisse-First Boston Ltd.

Britain will benefit from rising prices for North Sea crude exports, but that won't keep its economy from the brink of recession. Costlier oil and 15% interest rates make a volatile mix, says Richard Freeman, chief economist for Imperial Chemical Industries PLC. "The impact on confidence will hit business investment" when "the world economy is almost stagnant, and you're imposing an inflationary shock," he says.

In Italy and France, where stock markets have plunged 15% since the Iraqi invasion, pessimism is mounting. Turin-based Fiat, the giant auto maker, plans to lay off 35,000 of its 117,000 workers over the next four months to reduce its stocks of unsold cars. And Italian chemi-



BURNOUT: PREDICTIONS OF FAST '90S GROWTH WERE BASED ON $18 OIL

UAL BURDEN: THE U.S. IS
G UP THE MILITARY BILLS

cal maker Enimont is furloughing 2,000.

The French manufacturing slowdown already under way during the first half is likely to worsen as the year draws to a close. French carmaker Peugeot, for example, believes higher oil prices will prompt consumers to shift to cheaper small cars, reducing profits. Steep interest rates are also keeping the franc high and pummeling the competitiveness of many exporters. Luxury-goods maker LVMH Moët Hennessy Louis Vuitton, for one, has seen its shares fall 25% since Aug. 1 amid expectations of narrowing profits on sales of champagne, cognac, and luggage to its big markets in the U. S. and Japan. To offset oil's impact, Prime Minister Michel Rocard is considering cutting taxes by an additional $1 billion on top of a $385 million reduction already in the works.

West Germany's strong economy is best off, even though it must contend with the immensely costly challenge of rebuilding East Germany. Retail sales are holding up, and inflation of 4.5%, up from the current 2.5%, "will have only a slight effect," says Jörg Hinze of Hamburg's Institute for Economic Research.

But oil prices and the strong Deutschemark are cutting sharply into the profits of chemical makers Bayer and BASF, and the partly state-owned airline Lufthansa is running an operating loss. Fearing for jobs, the Socialist candidate for Chancellor, Oskar Lafontaine, wants to limit the rights of ethnic Germans in the Soviet Union and other former East bloc states to return to their fatherland.

SHRINKING MARGINS. Japan still believes it can avoid much damage, and Japanese companies are bent on raising capital spending even with interest rates at a nine-year high. But the Bank of Japan's tight-money stand will leave many debt-laden companies, including auto maker Isuzu and electronics maker NEC, with shrinking margins. And many big banks fret about shaky real estate loans and falling stock prices.

Despite the pain of tight money, no one is suggesting that the Bank of Japan—or the Bundesbank, for that matter—suddenly turn on the monetary taps. As central bankers learned from past oil-price jumps, to do so could court even worse inflation and a recession later. Even the Federal Reserve is reluctant to cut interest rates until the gulf and the markets simmer down. The longer that takes, and the longer oil and money remain tight, the more pain the world's economies will endure.

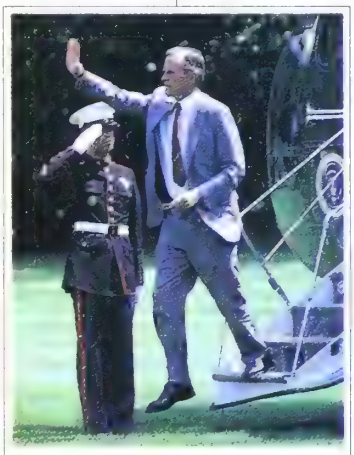
By William Glasgall in New York, with Blanca Riemer and Stewart Toy in Paris, Richard A. Melcher in London, Igor Reichlin in Bonn, and Ted Holden in Tokyo

Commentary/by Amy Borrus and Douglas Harbrecht

COOPERATION IS GREAT—BUT WHO'S GOING TO PAY THE TAB?

If there's a silver lining in the dark cloud over the Middle East, it's the burst of international cooperation not seen since World War II. In a matter of weeks, the U. N. Security Council has emerged as a diplomatic powerhouse. It put teeth into the international sanctions against Iraq, most notably by authorizing the use of force to make the embargo stick. President Bush's rhetorical claims of "Iraq against the world" rang true as U. S. forces were joined by warships from Britain, France, and the Soviet Union; troops from Egypt, Syria, and Morocco; and medical supplies and materiel from Germany and Japan.

But don't start celebrating a new era of international solidarity. Compared with the challenge of resolving other regional disputes, the unique circumstances of Saddam Hussein's aggression make isolating Iraq look easy. And amid all the global cooperation, the countries involved are just beginning to grapple with the divisive issue of who will pay for collective security.



BUSH: RISING TO THE OCCASION

Clearly, economic interdependence and the end of the cold war are pushing nations toward mutual action. With the easing of the Soviet threat, Western leaders are focused on containing regional conflicts as well as such relatively new problems as drug trafficking, global warming, and nuclear proliferation. "Instead of one huge problem, now you have five or six equally dangerous problems," says one State Dept. official. "Solving them takes many actors working together."

Still, the growth of such international organizations as the Conference on Security & Cooperation in Europe and the Asia-Pacific Economic Cooperation Council doesn't mean that conflicts will always be hashed out over the dinner table rather than on the battlefield. India and Pakistan may yet come to blows again over Kashmir. Southeast Asia remains mired in Cambodia's civil war, despite the sweeping U. N. plan for peace. And from Monrovia to Cape Town, Africa is riddled with fighting and internal unrest.

The current crisis in the Mideast is far from typical. Saddam's actions have threatened to throw the world's economy into another major oil-induced recession. And his crude propaganda efforts can't conceal that his annexation of Kuwait is a clear violation of international law. "There have been few cases of aggression as naked as Iraq's," says former State Dept. policy planner Francis Fukuyama. "In other regional conflicts, the rights and wrongs may not be so clearly drawn."

Collective security works best when there's someone to take charge. In this case, George Bush has risen to the occasion, masterfully galvanizing support for the isolation of Iraq. Events of the last few weeks have made it clear that the U. S. is the world's only true superpower.

The problem is that military might takes money—and Uncle Sam has a $200 billion-plus deficit. With Operation Desert Shield barely a month old, Democrats have tempered their support for the President by complaining that the allies, particularly Japan and Germany, aren't contributing their fair share. While the U. S. is spending $43 million a day for forces in Saudi Arabia, Bonn and Tokyo have so far offered only modest donations.

The constitutions imposed on Germany and Japan by victorious allies after World War II severely limit their military capability. But Bush has been turning up the heat on the allies. Responding to repeated phone calls from the President to Prime Minister Toshiki Kaifu, the Japanese government on Aug. 29 announced that it will give an unspecified amount of aid to Turkey, Jordan, and Egypt. Tokyo also offered two cargo ships and two airlifters to ferry food and medicine to the troops.

NOTHING LESS. While the steps are welcome, the Administration hopes they're just the first installment. "We're not just looking for money," says a State Dept. official. "We want to see the Rising Sun flag in the Persian Gulf." Congress will accept nothing less. "Japan should at the very least make a major financial contribution to the cost of the operation," says Senate Intelligence Committee Chairman David L. Boren (D-Okla.). "American young people are putting their lives on the line."

The intensifying debate over "burden sharing" only heightens the point that even a custom-made villain like Saddam can't keep the allies rowing together indefinitely. With U. N. Secretary-General Javier Pérez de Cuéllar in the Mideast, the immediate outlook in the gulf is for diplomatic wrangling, not fighting.

But even if Pérez de Cuéllar succeeds in negotiating Iraqi troops out of Kuwait—a long shot—the question of who pays for this and future operations will remain. It's nice to think that the U. N. can be the world's sheriff. But peace still comes at a price that too few seem willing to pay.

THE IRAQ CRISIS

'EVEN SADDAM HUSSEIN CAN LEARN LESSONS'

A talk with National Security Adviser Brent Scowcroft

During the long days of the Persian Gulf Crisis, no aide has been closer to President Bush than National Security Adviser Brent Scowcroft. The 65-year-old retired Air Force general, who served President Ford in a similar capacity, has rarely been far from Bush, whether fishing or teeing off on the golf course. Taking a short break in his makeshift office at a Kennebunkport (Me.) inn on Aug. 26, Scowcroft spoke with BUSINESS WEEK *White House Correspondent Douglas Harbrecht about the Administration's strategy for facing down Iraqi leader Saddam Hussein.*

Q The American public seems to think that when the President talks about our way of life being threatened by Saddam Hussein, he's saying he'll put American troops into combat to keep oil prices down. Are our policy goals in this crisis sustainable?

A It's not simply to keep oil prices at a particular level. That is a gross distortion. We have two objectives. The first is to show that naked aggression, posing a threat not only to Kuwait but to all the other countries in the gulf, won't be tolerated. And we intend to prevent Iraq, either by physical control or by threats, from controlling the oil of the Middle East, with the consequent influence on the world economy.

Q Can you foresee any scenario where there isn't going to be a major U. S. troop presence in the Middle East for years to come?

A Yes, if there is an [Iraqi] withdrawal. The fact that there has been this demonstration, not only by the U. S. but by the world community, of quick reaction to aggression means that expectations and attitudes throughout the region will change. It won't necessarily mean that peace and nonaggression have to be maintained by military force.

Q So Saddam must go?

A Not necessarily. Even Saddam Hussein can learn lessons. And if he becomes convinced that aggressive behavior will not be tolerated, then it may not be necessary to keep massive forces in the region. After all, we have had a naval squadron in the Persian Gulf for years and years. There is likely to be a presence, but it doesn't have to be massive.

Q The U. S. seems to be taking on a new role as global cop in the post-cold-war era. Can we afford it?

A There's no question the U. S. as a superpower has a certain leadership role to play. But I want to underscore the role of the world community. Hopefully, if there needs to be a world policeman, the U. N. Security Council can do the job. And if it can act decisively in cases of aggression, then the would-be aggressors may be deterred. There won't be the need to repeat the massive threat of force that we have in this circumstance.

Q Does the vote to give the embargo teeth foreshadow a new, stronger role for the U. N.? Or is this just a rare case where everyone's interest coincided?

A We may be seeing the emergence of a new world order. In 1945-46, the U. N. Security Council was given [broad] powers to enforce the rule of international law. It didn't work out because of the cold war. Now, we are seeing the kind of cooperation and action that was envisioned by the U. N. charter.

Q To make the blockade more effective, will we intercept airlifts to Iraq?

A Voluntary compliance with the sanctions has been very, very good. And an occasional aircraft flight in or out isn't going to make a big difference.

Q Even from Libya?

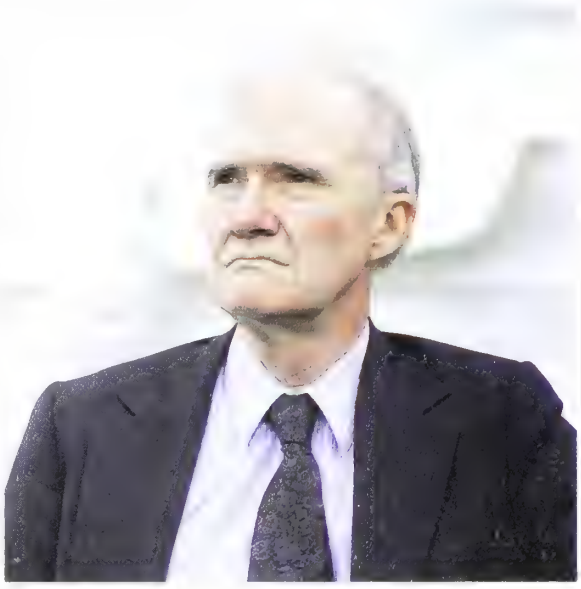
A Even from Libya. What we are doing is interdicting the basic commerce in and out of Iraq. We are talking about enormous quantities here, both of exports and imports. And if there is an occasional flight or overland delivery here, it's not going to make a big difference.

Q Have we asked the Soviets for active intervention in the gulf?

A We haven't asked. They have made some suggestions, and they have a naval presence. We welcome their participation.

Q How will this crisis redefine our relationships with our allies?

A I think it helps solidify the alliances. What we have here is close cooperation with all of [the Allies] in areas outside the perimeters of our major alliance systems—that is, NATO and the Japanese security system in the Far East. What we're seeing is everybody making the kind of contribution that they can best make. With the Germans and the Japanese, there are constitutional problems with using their military forces. Therefore, their contributions are of another kind. But there's plenty of need, and everybody can contribute.



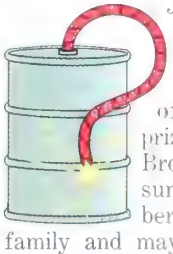
'There's no question the U.S. has a certain leadership role to play. But I want to underscore the role of the world community'

■ THE GOVERNMENT-IN-EXILE IS COAXING ALLIES TO MAINTAIN THE BOYCOTT OF IRAQ AND FOMENTING ARMED RESISTANCE IN KUWAIT

■ THE IRAQ CRISIS

HUNKERING DOWN IN A LUXURY SUITE

Kuwait's royal family marshals its resources to battle Saddam



Just one month back, Sheik Ahmad al-Hamoud Al-Sabah's worries ran along the lines of how to protect his prized model 1951 Cadillac Brougham from the desert sun. As a prominent member of the Kuwaiti royal family and mayor of one of Kuwait's five townships, Ahmad was part of a carefree elite.

Today, his Cadillac is riddled with holes from Iraqi machine-gun fire, and Ahmad resides in exile in the Saudi Arabian mountain resort of Taif, 900 miles from his occupied homeland. Joining him are more than half of Kuwait's 22-man Cabinet and about 60 top members of the ruling Al-Sabah family. The Kuwaiti government-in-exile operates from an ornate fifth-floor lounge in the Al-Hada Sheraton, a luxury hotel complex owned by the Saudi government. Armed with four telexes and an overworked fax machine, the Kuwaitis are coaxing allies to maintain the boycott of Iraq, fomenting armed resistance inside Kuwait, and keeping track of their country's estimated $100 billion in foreign assets.

Because their assets around the world are technically frozen, the exiles don't have full control. But they are able to tap into some of their vast holdings, and they are relying on credit from the Saudis and other nearby states. The exiled government, for example, recently put in a $20 million rush order for wall-to-wall carpeting for hundreds of empty apartments that the Saudi government is providing Kuwaiti refugees, and it keeps in touch with home via clandestine satellite telephone hookups. The question is whether the 1,000-odd members of the Al-Sabah family, used to lives of luxury, can sustain their patriotic zeal in what could be a drawn-out struggle.

At least for now, the Kuwaitis are showing they function well under pressure. Their ability to maintain an internationally accepted government-in-exile is important also for the U. S., which has pledged to restore Emir Sheik Jaber al-Ahmad Al-Sabah to power. Washington may also need some of Kuwait's billions to help pay for Operation Desert Shield.

The twin economic pillars of the exiled Kuwaiti government are the Kuwait Investment Office and Kuwait Petroleum Corp., which operate from London. The global freeze on Iraqi and Kuwaiti assets brought the two entities to a halt right after Iraq's Aug. 2 invasion. But from Taif, Finance Minister Ali al-Khalifa Al-Sabah assigned full management responsibility to KIO officials in London and helped both organizations establish legitimacy with foreign governments.

'NIGHTMARE.' The investment office is using some of its income to support the government-in-exile, its embassies, and the resistance in Kuwait. But moving Kuwaiti funds across international borders is tricky because of the asset freeze. "It's a regulatory nightmare," says one London-based source close to the Kuwaitis. Take the financing of expenditures for an embassy: It may mean transferring dollars into marks, and that requires the approval of the U. S. Treasury, the Bank of England, and the Bundesbank. All that takes time.

The government-in-exile can also draw some funds out of the U. S., thanks to a partial thaw in the Treasury Dept.'s freeze. Most of Kuwait's $50 billion in stocks, bonds, Treasury securities, and

al estate in the U. S. remains off lim-. For example, Kuwait can't collect vidends from its major industrial hold-gs, Santa Fe International Corp. and eorgetown Industries Inc. But the reasury has granted the exiled leaders license to draw on their ample U. S. nk deposits. If the Kuwaitis get ught short of cash, Washington is like-to help. "We assume they would ap-oach the Treasury for a new license at would give them access to other ocked accounts," says a U. S. official. he purpose was never to hurt the le-timate government of Kuwait."

As usual, the Kuwaitis are investing rough such blue-chip financial institu-ons as Morgan Stanley, Deutsche nk, and Citibank. Because future oil venues are uncertain, one London-sed banker says the Kuwaitis are mulling a shift toward a more conservative investment strategy. They now need assured, regular income, so bankers say the KIO may ease back from heavy equity stakes and speculative land developments, concentrating more on government and high-grade corporate bonds.

SAUDI CRUDE. For now, the Kuwaitis say their portfolio income will suffice. But if the Persian Gulf conflict drags on, they hope Saudi Arabia and other gulf producers will shift some of their increased oil revenues to the Kuwaitis as they did to Iraq during its eight-year war with Iran. And Kuwait Petroleum, no longer able to get Kuwaiti crude, plans to buy 250,000 barrels a day of Saudi crude to feed its three European refineries.

Organizing an armed underground inside Kuwait is a question of leadership and courage, not money. Some of the Al-Sabah men are sneaking back into Kuwait to lead the resistance, while others work the phone out of Taif. "We're killing six to eight Iraqis a day," claims Ahmad Al-Sabah, with a proud smile. Says a young, middle-level bureaucrat: "We've got to show we're not scared."

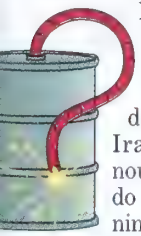
Although autos, jewelry, and some money were looted by the Iraqis, they've been unable to get their hands on a vast stash that the Kuwaitis left in sub-sea-level vaults of the central bank. Lacking a combination, "the only way in is to dynamite it," says one Kuwaiti minister. "And if you dynamite it, everything inside is destroyed." The Kuwaitis are out to prove that, like that vault, they are too tough to break, even in exile.

By John Rossant in Taif, with Richard A. Melcher in London, Mike McNamee in Washington, and bureau reports

THE IRAQ CRISIS

OW THE CRISIS COULD PUSH HE U.S. CLOSER TO MEXICO

y boosting oil output, Salinas hopes to speed free-trade talks



No one ever accused Mexico's President Carlos Salinas de Gortari of being slow on the draw. Within days of Iraq's invasion, he announced that Mexico would do its share to help by running its wells at full capaci-, squeezing out an extra 100,000 bar-ls a day for export.

But that's just for starters. On Aug. , he ordered Petróleos Mexicanos (Pe-ex), the state oil monopoly, to double exploration-and-development budget, $760 million, this year. In an interview the presidential palace in Mexico City, linas told BUSINESS EEK that he planned boost exports from eir current level of 1.3 llion barrels a day to sure his country's le as an oil power into e next century. In so ing, Salinas hopes to sh the Bush Adminis-ation into speeding up ans for a free-trade greement that could ve the U. S. a long-rm claim on the new ow of Mexican oil. t's an important incre-ent," says Salinas. Salinas hopes to sign a free-trade pact within the next two years. He's after access to U. S. markets for such Mexican goods as steel, avocados, shoes, and cement.

The Mexican President says he doesn't yet know when, or by how much, the new investments could boost Mexico's current oil exports. "But we have some very promising new fields," he says. U. S. oil experts think that even if the Persian Gulf crisis is resolved quickly and the pressure on oil prices eases, the investments will pay off.

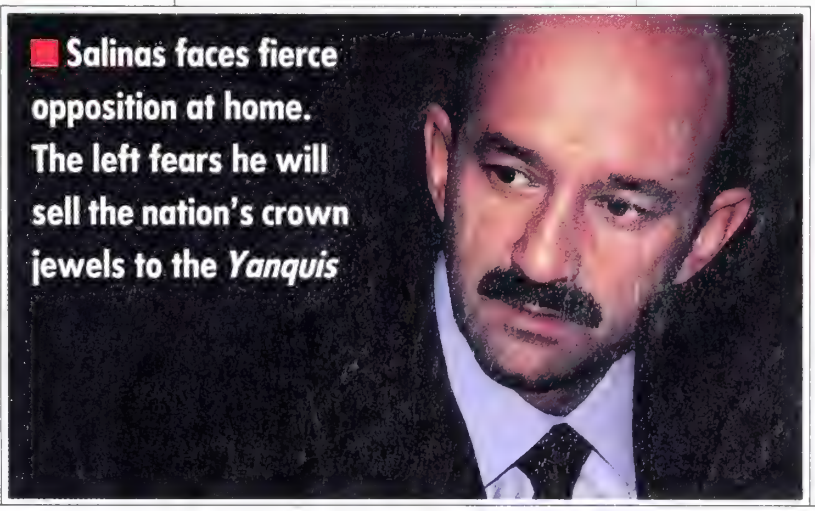
The gambit is sure to cause a stir at home, where many want Mexico to save its oil for itself. And Salinas could well meet resistance from the U. S. The Bush Administration will argue that one of the best ways for Mexico to increase oil production is to open its doors to foreign investors. While Mexico seeks foreign investment in industries ranging from telecommunications to banking, oil's nationalized status is protected by the constitution. To invite foreigners in would be a risky political gamble—and one Salinas says he won't take. "The constitution will not be changed," he says.

'MONSTER.' Mexico's skimping on oil investment dates back to the 1982 debt crisis. As a result, proven reserves have fallen 15% in the past 10 years, to 68 billion barrels. Production capacity also dipped as oil fields matured.

Salinas already faces competiton for markets. Venezuela's state oil industry hopes to attract foreign investment for a $21 billion plan to double production, to 4 million barrels a day, by the year 2000.

He also faces fierce opposition at home. To private business, Pemex represents state industry at its worst—wasteful and corrupt. "We shouldn't pour money into that monster," says Guillermo Díaz de la Garza, director of Conacex, a group of private exporters. The left, though, fears that Salinas will sell the nation's crown jewels to the *Yanquis*. "We act as if we were one of the United States," complains Porfirio Muñoz Ledo, an opposition senator. But Salinas can stand a little grumbling at home. What he wants is a strong card in his hand when he sits down with the Americans. And these days, oil is one of the strongest cards around.

By Stephen Baker in Mexico City



Salinas faces fierce opposition at home. The left fears he will sell the nation's crown jewels to the *Yanquis*

COMPUTERS

CAN IBM TEACH OLD MAINFRAMES NEW TRICKS?

It plans to make a retooled System/370 the heart of networks

There's something important IBM wants to say: Its bread-and-butter mainframe computers have quite a future. Even in this world of cheap and increasingly capable microprocessors and desktop computers, the mainframe can, and will, thrive for years to come. Or so IBM hopes to persuade investors. To make its case, Big Blue is hiring a fleet of buses and even an entire Amtrak train to bring Wall Street and the press to its Poughkeepsie (N. Y.) mainframe plant for a big show on Sept. 5.

IBM isn't offering any sneak previews. But if informed analysts have it right, those going to Poughkeepsie are likely to hear two things. First, IBM plans to begin shipping a new family of System/370 mainframe processors as early as this year. Analysts expect a slight dip in IBM's sales as customers evaluate the new gear, yet the consensus forecast remains bullish: 1990 earnings should hit $10.30 a share, a good deal above last year's $6.47.

More important, though, will be IBM's outline of the new roles it hopes to give the 370, whose basic design dates from 1964. Then, mainframes handled all computing tasks. Now, powerful micros and minis are taking on many jobs, so the plan is to give the 370 a limited yet indispensable part in vast networks. IBM wants its mainframes to serve as mammoth central libraries, or data repositories, storing all types of information: words, numbers, digitized voices and images, perhaps even videos. What's more, the 370 would help manage a network's thousands of micros, doling out new software and monitoring for glitches. "This will be the mainframe's last hurrah," says John McCarthy, director of professional systems research at Forrester Research Inc. in Cambridge, Mass.

FEW CHOICES. The question is: Can IBM deliver the complex software needed to make its grand vision come true? By outsiders' estimates, the company is a long way from having what's needed. Even now, the System/370 is under siege. Sales growth of the biggest models is slowing from 12% a year in 1984 to just 5% this year, as customers employ desktops and minicomputers when they have new computing needs. Personal computers can do upwards of 50 times more computing for the dollar than mainframes and are much easier to program. IBM officials also confirm that hundreds of System/370 users are converting each year to cheaper IBM AS/400 minicomputers. And Japanese 370 clones supplied through Amdahl Corp. and Hitachi Data Systems have been slowly gaining market share from IBM.

IBM, so deeply dependent on mainframes, has little choice but to try to bolster the market. This year, Prudential-Bache Securities Inc. computer analyst Rick Martin figures, IBM's mainframe-related revenues will hit $33 billion, or 48% of its $68.3 billion total, and 53% of gross profits, or $20 billion.

Historically, the System/370's 70% market share has offered IBM tremendous influence in the overall computer market. That influence is slipping, though, as desktop computer sales now exceed those of mainframes. It's the small machines that dictate how corporations approach many data processing problems. "We would like to treat the mainframe as just another peer to the PC," says Norman Judah, project leader at Esso Petroleum Canada in Toronto.

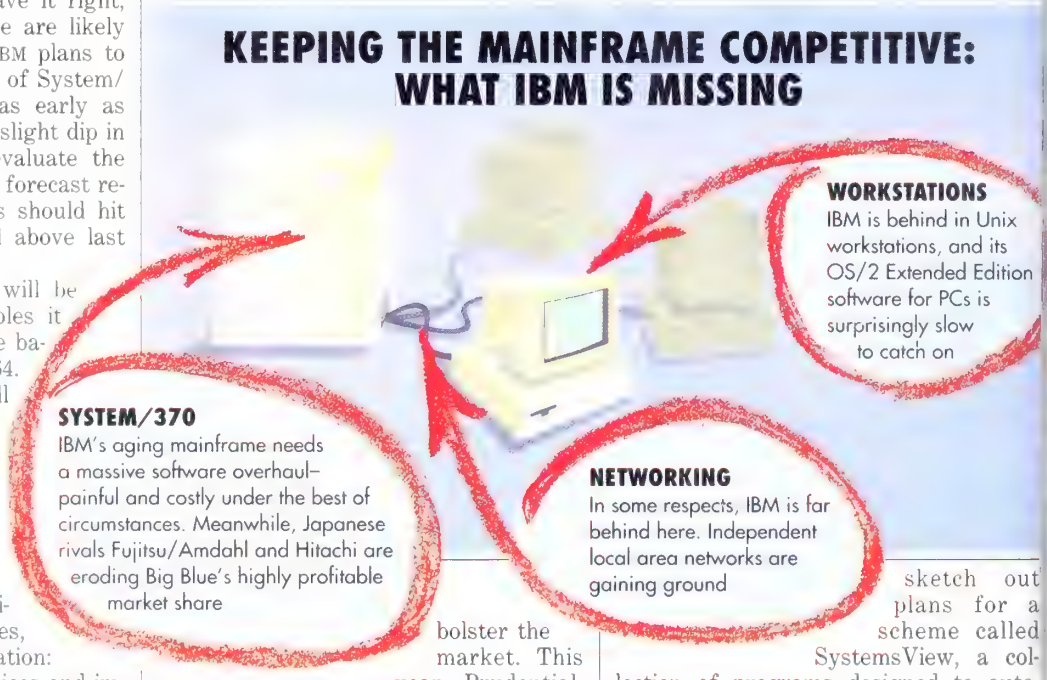
IBM evidently plans to make the 370 better able to store huge amounts of information on disk drives, sort through it all with specialized processors, and instantly dish out requested items to distant PCs. It also plans to boost the 370's performance tenfold by strapping lots of processors and disk drives together to create what it calls a "sysplex."

HARD CORE. But all that will require reams of new software, which won't come easy. Software is notoriously difficult to develop and deliver on schedule. Besides, customers already find today's core 370 software, or operating system, difficult to cope with. "It's a huge issue," says Judah. Michael Braude, senior vice-president for research at Gartner Group Inc., a Stamford (Conn.) consultant, says today's large IBM mainframes can overwhelm its operators with messages spewing out at a rate comparable to one 360-page novel per hour. To help, IBM on Sept. 5 will likely sketch out plans for a scheme called SystemsView, a collection of programs designed to automate the management of big data centers. But "this will take three to five years to implement," says Braude, "and it's already 10 years late."

The importance of the 370 to IBM can't be overestimated. The company already has devoted 3,000 extra programmers to rebuild the machine's operating system, figures Mike Egan, an analyst at Meta Group, a Westport (Conn.) consultant. That much is within IBM's control. But for its new mainframe strategy to work, Big Blue has to hope customers and investors stay on board once that train pulls out of Poughkeepsie.

By John W. Verity, with Evan Schwartz, in New York

KEEPING THE MAINFRAME COMPETITIVE: WHAT IBM IS MISSING



UNIVERSAL STUDIOS FLORIDA: CUSTOMERS HAVE BEEN SCREAMING FOR REFUNDS

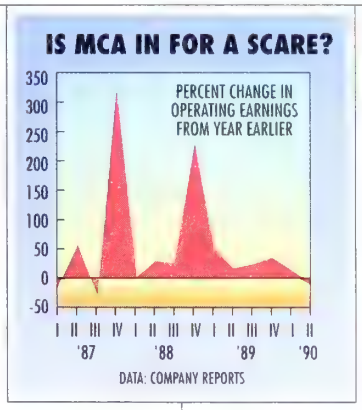
MCA MAY HAVE REATED A MONSTER

s new theme park is floundering—and that's just part of its woes

t was their sixth trip to Orlando. Phil and Sheryl Leibert were xious to see Univer- l Studios Florida, MCA c.'s new $630 million eme park. But within ree hours after they ere admitted, the two ew Yorkers and their ildren split and head- for rival Walt Disney o.'s EPCOT Center or a World. "If you're oing to take $100 a mily, you had better make sure that erything is working," complained heryl Leibert, disgusted. "Even the ndors ran out of soda."

Three months after opening its 444- re theme park with all the hoopla Hol- wood could muster, Los Angeles-based CA has a big problem on its hands. ides based on its adventure movies ws, *Earthquake*, and *King Kong* race- work. Steve Lew, the park's chief, ys the rides will be working soon. onetheless, the glitches have meant ousands of free tickets handed out to ngry customers.

The Florida theme park isn't MCA's ly headache. Efforts to sell the movie eaters owned by Cineplex Odeon, the ebt-plagued theater chain MCA owns lf of, are moving ponderously. And the sale of its money-losing toy unit nearly fell apart, forcing the company to revive the deal at a cost of $3 million to get the buyer, Acclaim Entertainment Inc., to take it off MCA's hands. True, the company's overall earnings in the first half increased by a respectable 10%, to $76.4 million, on sales of $1.9 billion. But operating earnings for its most recent quarter actually fell 6%, to $91.9 million (chart).



'RIDICULOUS.' The Florida park is MCA's most visible problem. The six-ton King Kong ride isn't manhandling trams full of guests as promised, the 24-foot-long Jaws shark regularly fails to bare its huge teeth, and the Earthquake ride hasn't been trembling at 8.3 on the Richter scale. The only screaming that customers have been doing is for refunds—and after shelling out a free ticket to nearly every paying customer, MCA is more than ready to scream, too.

So on Aug. 13, it filed suit against Ride & Show Engineering Inc., which made the Jaws and Earthquake rides (box, page 38). Ride & Show, a five-year-old amusement-ride designer, disputes the claims. "It is ridiculous to say we don't know what we're doing," says Joseph B. McHugh, vice-president of marketing for the company.

> Over the past 18 months, MCA has written off over $40 million to cover its share of Cineplex Odeon's losses

MCA Chairman Lew Wasserman and President Sidney Jay Sheinberg are keeping mum. But Wall Street analysts aren't. "This is a better company than it was three years ago," says Raymond Katz, entertainment analyst for Shearson Lehman Brothers Inc. "But it is still just not working right." Katz is among several analysts who are lowering their earlier profit forecasts for MCA. He has dropped his estimate for next year's earnings by 30¢, to $3 a share.

MCA first unveiled its plans for a theme park in Florida nearly a decade ago. But it spent almost five years finding a partner to help with the financing. Cineplex Odeon eventually signed on, but it backed out in 1989 and eventually was replaced by British entertainment giant Rank Organisation PLC. Then the company rushed to open the project well before it was ready. For instance, work on an amusement ride based on the smash movie *Back to the Future* wasn't yet finished.

TOYS 'R' BUST. Analysts at first expected the Florida park to add as much as $25 million a year in earnings beginning in 1991. But, says Jeffrey Logsdon, an analyst with Los Angeles-based Seidler Amdec Securities Inc., the company now estimates that to break even, it will have to attract at least 3.5 million people a year. Logsdon believes that MCA will be hard-pressed to meet even that target.

All this comes hard on the heels of MCA's most persistent recent problem, Cineplex Odeon. MCA bought 49% of Cineplex in May, 1986. But over the past 18 months, MCA has written off more than $40 million to cover its part of the theater chain's mounting losses. The red ink, company executives have told analysts, is more than likely to continue through the rest of the year. And that was before a deal for Cineplex to sell 38 screens for $31 million ran aground in mid-August, when financing couldn't be arranged.

MCA almost had another busted deal on its hands. Last April, the company thought it had sold its LJN Toys unit, which lost $99.5 million over the past three years, to Acclaim for $28.7 million in cash and stock. But MCA agreed in July to return $1 million in cash and buy up to $2 million in a new Acclaim stock

offering. The added payment came after an accounting dispute that required MCA to accept $3.8 million in LJN receivables. One big problem was 100,000 Friday the 13th computer-game cartridges that LJN couldn't sell.

About all that has been going right at MCA is that risky business known as Hollywood. Hits such as *Back to the Future III* and *Bird on a Wire* have propelled earnings in the first half from MCA's movie unit to $138 million, a 34% increase from a year earlier. And analysts think that the company may have still another winner in *Kindergarten Cop*, an Arnold Schwarzenegger film scheduled for release at Christmas.

A good run of luck at the box office could cover lots of problems for MCA. This summer, however, it's MCA's Florida fiasco that is drawing the biggest audience.

By Ronald Grover in Los Angeles, with Antonio N. Fins in Miami

THRILLS, CHILLS—AND GLITCHES

Back in the '70s, a new quicksand pit and the Incredible Hulk were all it took to boost attendance at Universal Studios Hollywood. Now, bigger thrills are needed to lure a jaded generation raised on dazzling movie special effects. So when MCA Inc. built Universal Studios Florida, it spent an estimated $200 million-plus for rides such as a giant robotic shark that attacks a boatload of tourists, a three-story animated King Kong, and a bone-jarring imitation earthquake.

Universal was not alone in its plunge. Walt Disney Co., Knott's Berry Farm, and other theme-park operators have joined the race for "animatronics," robots, and other computerized contraptions aimed at the fun-seekers who shell out more than $4 billion a year at U.S. amusement parks. Yet as the bugs plaguing Universal show, technology has its price. Says Joseph B. McHugh, vice-president of Ride & Show Engineering Inc., which made the Jaws and Earthquake rides: "The complexity of the systems means there are more components that can shut a ride down."

PARK OPERATORS GET PANICKY IF JAWS REFUSES TO BITE

The scariest prospect for a park operator is a Jaws that doesn't bite. And all it takes is one software bug. At Universal, the trick is to synchronize a moving tram and an animated shark or gorilla that runs on a fixed program. "If they're not coordinated exactly, they run into one another and parts get bent," says Q. David Schweninger, chief of Sequoia Creative Inc., Kong's creator. Universal's rides are "way out in front of everyone else," he says. "The price you pay is that you're going to have teething problems."

Universal's snafus may spell a slowdown in high-tech rides just as that end of the business was poised to dominate the $250 million U.S. ride industry. The companies involved will at least become more cautious. "There are lessons to be learned here," says Schweninger, who adds that ride makers may now insist on more shakedown time before new rides open.

But none of this is likely to halt the shift to high-tech rides, which promise more safety and eat less real estate. Changing demographics also favor gentler high-tech rides over old-style gut-wrenchers such as roller coasters.

JET PILOTS. Disney opened the floodgates to a new wave of participatory rides in 1987 when it launched Star Tours, a $32.5 million space extravaganza that combines the motion-simulator technology used to train jet pilots with movies of exceptional clarity. Ride makers are scrambling to produce dozens of variations on the simulator ride—such as motorcycle chases and undersea adventures—for theme parks, casinos, and special theaters

Makers of high-tech rides are increasingly looking to overseas parks for most new business. At home, they hope to expand into humbler venues, such as midsize regional parks and shopping malls, as the cost of the technology falls. But first, they must get the bugs out.

By Kathleen Kerwin in Los Angeles

SEMICONDUCTORS

CALL HIM MR. CHIPS

Gilbert Hyatt's circuit patent may earn him millions in royalties

Take apart just about any electronic item, from a toy to a stereo, and chances are you'll find a microprocessor inside. Probably no one is happier about that than Gilbert P. Hyatt. That's because a patent that the obscure inventor from La Palma, Calif., won on July 17 should give him the right to rake in a royalty on every computer-on-a-chip circuit made or sold in the U.S.

Experts think this patent is the most fundamental covering microprocessor technology. If it withstands court challenges, the garage-shop tinkerer will most likely become a millionaire, since the U.S. microprocessor market is estimated at $3 billion. "We may have another dynasty with the Hyatt name apart from hotels," jokes Susan H. Nycum, a San Francisco patent expert.

CHIP LICENSES. The patent upheld by the federal appeals court is so broad that chipmakers such as Intel Corp. and Motorola Inc. may have to buy a license, according to industry experts. Neither company would comment. "It appears to cover every single-chip microcomputer ever built," says Michael Slater, editor of *Microprocessor Report*. Hyatt also could block the sale in the U.S. of imports containing a microprocessor, forcing offshore producers of such products as laptop computers and cars to pay up as well.

Hyatt won't say how big a licensing fee he will seek, though he says he'll be reasonable: "Too many people who are enforcing patents are a little too greedy and causing too much litigation."

The approval comes 20 years after Hyatt submitted his invention to the U.S. Patent Office, which rejected it twice, forcing him to turn to the courts. Hyatt says that none of his other 60 patents produces income. He works as a consultant, mainly for aerospace companies.

Hyatt, 52, may still have to wait a bit before he starts cashing royalty checks. In fact, G. Gervaise Davis, a Silicon Valley lawyer who specializes in intellectual property, says the patent is so broad it may not withstand challenges.

But Hyatt is confident he's finally hit pay dirt. He may soon be able to trade in that garage for somewhat fancier digs.

By Otis Port in New York, with bureau reports

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AUTOS

THE UAW MAY BE CHASING AN IMPOSSIBLE DREAM

It wants job guarantees from GM, but the carmaker needs to shut plants

It might seem crazy for the United Auto Workers to choose troubled General Motors Corp. as its pattern-setting target in the bargaining for a new labor contract. After all, the union almost certainly could win more from prosperous Ford Motor Co.

But the UAW had two good reasons to pick GM as its strike target on Aug. 28. The union's leadership strength lies at GM, where Stephen P. Yokich, a militant and the heir apparent to the UAW presidency, is in charge. Union leaders also know that GM has the thorniest problems and the most workers of the Big Three carmakers. As a result, they figure there's no point in trying to bargain with Ford about GM's troubles. Now, the union will push the layoff-prone auto maker for a contract with strong job security. Says one UAW insider: "We made sure GM got enough flexibility" in 1987, when the union negotiated with Ford first. "This time, why not just do it at GM? That's where the deal will be made anyway."

'BE CAREFUL.' The strategy is risky. Since Yokich took over the UAW's GM department last year, he has gone to great lengths to show members how tough he can be with the company. Even some union insiders fear he has raised the expectations of his troops to unrealistic levels. Ideally, the UAW would like ironclad job guarantees for all of its 300,000 active GM workers. But if Yokich pushes the company too hard and a strike results, GM's already suffering market share could slide further, causing yet more job losses. "Steve does have to be careful not to get painted into a corner," says Thomas M. Fricano, director of UAW Region 9 in New Jersey.

Somehow, the union must balance its wish to save jobs with GM's need to cope with overmanning—not to mention further sales declines. In its initial offer, made on Aug. 22, the company proposed broadening the existing income safety net. This would protect the pay of current workers but not their positions. One program gives laid-off workers up to 95% of their aftertax income for up to two years. A second would give veteran workers 50% to 75% of their income until retirement age if GM doesn't offer them another job. Management also proposed higher early-retirement incentives, which would free jobs for younger, more productive workers.

But the union sees this as just more of the same. Its membership has slid from 1.5 million in 1979 to just under 1 million today. Even if the UAW could completely protect the income of current members over the new three-year contract, it would still lose more jobs. In bargaining for the present contract in 1987, the union got Detroit to guarantee all jobs except those lost from sales downturns. It also won a ban against plant closings. But since then, GM has idled four plants indefinitely. That has put 30,200 veteran GM workers on layoff and left union members feeling betrayed. "The trust is definitely not there," says Richard Long, president of Local 653 in Pontiac, Mich.

Now, the union wants GM to close the loopholes. It wants the plant-closing ban to include idlings, and it wants GM to bring back work it has given to subcontractors in recent years. Most of all, the union wants GM to follow the lead of Japanese auto makers with U. S. plants, some of which guarantee no layoffs except in the most dire circumstances.

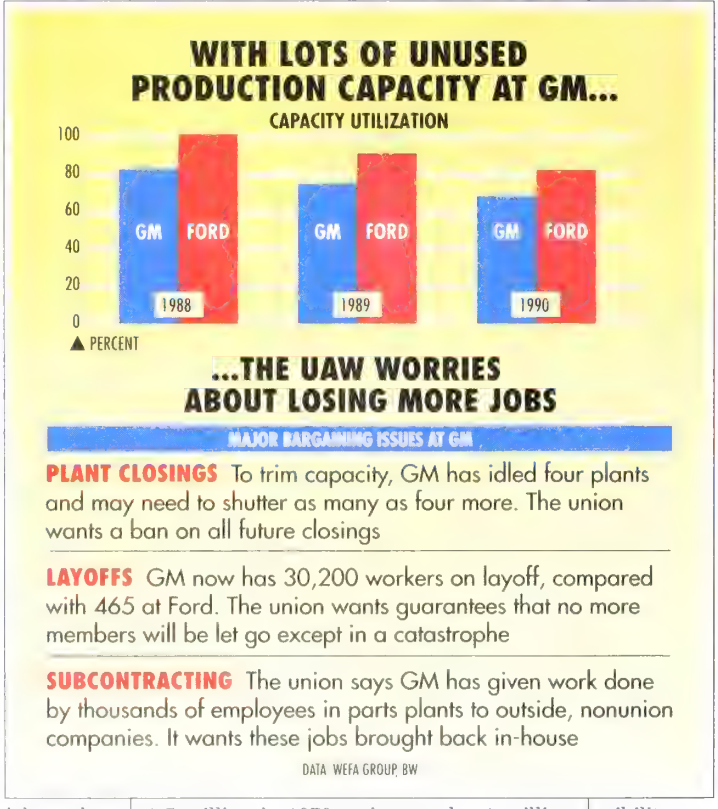
FULL TILT. GM will be hard pressed to agree to such an airtight vow. In fact, other plant closings and layoffs seem likely. Between 1986 and 1989, GM's share of the U. S. car market slid from 41% to 35%. So far this year, GM's share has inched up again about half a percentage point. But with its factories still running at just 70% of capacity, the company has too many plants—and workers (chart). Even if GM retains its current market share, it may need to close up to four more plants to get operations running at full tilt. The payoff from doing so would be to boost profits by $2.5 billion next year, estimates Scott F. Merlis, an analyst at Morgan Stanley & Co.

Of course, GM will be in even worse shape if its hold on the market slips further. Every percentage point decline cuts GM's labor needs by about 10,000, according to industry analysts. And if higher oil prices help bring on a recession, the vehicle market could slump below an already weak 14.4 million annual sales rate, putting GM in even worse straits. "They can't afford carte blanche job security for everyone there," says Maryanne Keller, an analyst at Furman Selz.

GM may meet the union's goal with tighter guarantees that leave an out if sales plummet. In turn, management may demand work-rule changes to boost productivity and lower costs. One possibility: running plants with three shifts instead of two. This could add 50,000 vehicles annually and $200 million to pretax profits at each GM plant, says Merlis.

Despite the divisive issues, both sides seem to realize how much they need to find a middle ground. If the UAW pushes too hard, it "might kill [itself] in the long run," admits Fricano. GM, on the other hand, needs to streamline operations without alienating workers. Finding that balance may be trickier than anything the union has done in years.

By David Woodruff in Detroit



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In Business This Week

EDITED BY SUSAN GARLAND

GUINNESS CULPRITS GET STOUT SENTENCES

▶ The first chapter in Britain's biggest financial scandal in decades has come to a close. On Aug. 27, Ernest Saunders, former chairman of Guinness, and three other prominent defendants were convicted for their roles in a scheme to inflate the brewery company's share price illegally during a bitter 1986 takeover battle.

Their sentences were harsh by British standards and seen as a warning to the financial community. The judge sentenced Saunders, 55, to five years in prison. Gerald Ronson, owner of Britain's Heron International, was given one year plus a $10 million fine—the largest in British history. Stockbroker Anthony Parnes received 30 months, while sentencing was postponed for a fourth defendant. A second trial, involving Saunders and several bankers and stockbrokers, is scheduled to start later this year.

KEATING SEVERS HIS S&L TIE

▶ Charles Keating, a key figure in the thrift scandal, has cut all ties to Lincoln Savings & Loan in Irvine, Calif. On Aug. 24, Keating resigned as chairman of American Continental, the holding company that controlled the S&L until federal regulators took it over in 1989.

His departure came a day after a federal judge dumped his suit charging regulators with illegally seizing Lincoln, whose failure could cost $2 billion. Keating faces a federal racketeering suit.

TRACOR'S BID TO BEAT BANKRUPTCY

▶ Tracor has unveiled a plan to restructure $730 million of debt in an effort to stave off bankruptcy. Under the plan, the Austin (Tex.) defense contractor and its parent, Westmark Systems, would be split into three companies. Stock in all three would be divided among shareholders, bondholders, and creditors.

Tracor's problems stem from its 1987 leveraged buyout, a slowdown in military orders, and weak management under former Admiral Bobby Inman. By late 1989, losses were mounting, and Tracor was struggling to make interest payments.

It may be tough to sell the plan to bondholders. If they reject it, Tracor says, it will file for bankruptcy.

NEW AMMO FOR CIGARETTE PRICE WARS

▶ Victory was short-lived for Liggett Group, the Durham (N. C.)-based tobacco manufacturer. On Aug. 27, a federal judge set aside a March verdict that awarded Liggett $148 million in damages stemming from a suit against competitor Brown & Williamson Tobacco. Liggett had charged that B&W's pricing strategies in the generic cigarette market thwarted competition.

But U. S. District Judge Frank Bullock, who presided at the trial, ruled that B&W could not have controlled prices on a nationwide basis because it sold to only 12% of the market. Liggett has not decided whether it will appeal. Industry experts predict that the ruling would lead to even more aggressive pricing in the low end of the cigarette market.

VENUS IS IN CAPRICORN? SELL IBM SHORT

Wall Street analysts, tear up those balance sheets. The answer lies not in your receivables but in your stars. That's where Chicago astrologist Grace K. Morris looks when companies and securities traders seek her advice. Morris, who practices astro-economics, is not your run-of-the-mill crystal-ball gazer. She employs mathematical models and a computer to chart the stars. She also reads *ValueLine*.

Morris claims she could have saved ill-starred Sears, Roebuck a lot of trouble if it had sought her counsel last year. She says she had predicted that its restructuring would lead to flat sales and sagging margins. What did the company do wrong? Its trouble, she says, was revamping when "the moon wasn't in any aspect to any star." Now, Morris has a tip for investors: bankrupt Federated Department Stores. "With Jupiter in Cancer, they could turn around."

AMBASE MAY TAKE COVER WITH SEQUOIA

▶ AmBase shareholders are riding a roller coaster these days. First, the financial services company told them it planned to sell its prime asset, Home Insurance, to Vik Brothers International. Then, 10 days later, on Aug. 24, the board approved a bid by another investor group to take control of the entire company.

The offer, led by Sequoia Associates of Menlo Park, Calif., seeks 50.1% of AmBase, including six subsidiaries. The company plans to negotiate with both groups until it signs an agreement.

The Sequoia offer, valued at $1.1 billion, would refinance AmBase's $410 million bank debt. Investors would receive $2 over market price. Wall Street seemed pleased: AmBase stock rose after the Sequoia bid was announced.

A PRIZE CATCH IN CHICAGO

▶ The government scored a big win in its Chicago commodity pits prosecutions on Aug. 27 when former soybean broker James D. Nowak, 48, pleaded guilty to one count of racketeering and one count of filing a false tax return. Nowak agreed to testify against other traders, whose trials begin on Sept. 5.

Nowak was among 48 traders indicted last year in an undercover probe of the Chicago Board of Trade and Mercantile Exchange. So far, 17 have been convicted, one acquitted. Nowak, who faces up to 23 years in prison and $350,000 in fines, admitted stealing $150,000 from customers. ▣

EDITED BY STEPHEN H. WILDSTROM

HOW CAN POLITICOS EXPLOIT THE CRISIS? LET US COUNT THE WAYS . . .

As the U. S. buildup in the Persian Gulf continues, politicians, including usually critical Democrats, have rallied behind President Bush. But while the threat of war may have sparked a rare show of national unity, the crisis has also spawned a curious byproduct. Nearly everyone with a pet agenda, it seems, is using the crisis to promote nostrums, from the merely self-serving to the downright silly.

Supply siders, for example, generally favor tax reduction for just about any problem. The impact of the crisis on the U. S. budget deficit is no exception. As the troops streamed into Saudi Arabia, House Minority Whip Newt Gingrich (R-Ga.) called for a $15 billion tax cut, including a reduction in capital-gains taxes, a higher deduction for dependents, and an investment tax credit for small business.

BOW-TIE RAMBO. Gingrich justifies this with seamless supply-side logic: Surging oil prices will cause a slump, worsening the budget deficit by raising outlays and lowering tax receipts. Stimulating the economy through a tax cut is cheaper. "The war and the possibility of recession change the whole dynamic of the budget summit," he proclaims.

GINGRICH: TAX CUTS ARE CHEAPER

Others are trying to use the Persian Gulf crisis to gain leverage in their campaigns. In Illinois, Democratic Senator Paul Simon, normally one of the Senate's most dovish members, is coming on like Rambo in a bow tie by calling on Bush to bomb Iraqi oil pipelines. Simon's hawkish assault knocked the wind out of Republican challenger Lynn Martin's charge that Simon favors deep Pentagon cuts.

So far, no one has outdone former Representative Dan Marriott. The Utah Republican tried to boost his comeback chances by urging that nuclear weapons be used unless Iraq withdraws from Kuwait. "If somebody has to die, it ought not be American soldiers," said Marriott.

Expensive weapons designed specifically for war with the Soviet Union, such as the B-2 Stealth bomber, faced a bleak future as the cold war receded. But supporters now see salvation in the sands of Saudi Arabia. At one point, White House Chief of Staff John H. Sununu jokingly suggested using the only B-2 Stealth bomber prototype to give Saddam Hussein a scare. But even though the desert conflict looks to be a low-tech affair, backers of the $500 million B-2 are serious when they argue that it's just the thing to spearhead U. S. attacks on the regional battlefields of the future.

'SURRENDER DOROTHY.' Fans of the Star Wars defense system are prepared to stretch matters even further. The Strategic Defense Initiative was designed to shield the U. S. from a Soviet ballistic missile attack—and no other potential enemy has such weapons. But Jay Kosminsky, deputy director of the conservative Heritage Foundation, argues that "there's never been a better example of why we need a space-based missile defense" than the Iraq crisis. Saddam Hussein doesn't have nuclear missiles, Kosminsky admits, "but in five years, he may."

In the midst of all this special pleading, politicians have found time for some old-fashioned parochialism. In one notable example, Senate Minority Leader Bob Dole (R-Kans.) hauled Iraqi Ambassador Mohamed al-Mashat into his office to demand the release of all Kansans held in Kuwait. A photo of the meeting—a scene reminiscent of the witch's "Surrender Dorothy" warning in *The Wizard of Oz*—was mailed to home-state newspapers at taxpayers' expense.

To be sure, the gulf crisis has also touched off a smattering of serious debate in Washington—over such issues as how the Pentagon can quickly project force to hot spots and how to share the costs with U. S. allies. But for the most part, politicians and lobbyists just can't restrain themselves from trying to bend the crisis to serve their own ends—especially when they know it will get them 15 seconds of precious TV airtime.

By Paula Dwyer

CAPITAL WRAPUP

GULF CRISIS

The initial cost of the crisis in the Persian Gulf could easily be double the $2.5 billion estimated by the Pentagon. The reason: The U. S. freezing of Iraqi assets makes it certain that Baghdad won't pay for $2 billion of American wheat, cotton, and other commodities purchased. The shipments were financed by loans from the Denver-based Cobank National Bank for Cooperatives and guaranteed by the Commodity Credit Corp. Making good on the default could wipe out the CCC's borrowing authority for the remainder of this fiscal year. To lessen the impact of the losses on the farm credit system, David L. Boren (D-Okla.), chairman of the Senate Agriculture Committee's foreign-marketing panel, is urging President Bush to seize frozen Iraqi assets to cover the default.

PEOPLE

U. S. Trade Representative Carla A. Hills has earned a reputation as a good sport, carrying her own bags on foreign trips and baking muffins for early-morning staff meetings. But she demurred when Miss America Pageant officials asked her to join actor John Forsythe and novelist Sidney Sheldon as a judge at the Sept. 8 contest. Instead, Hills plans to address the Los Angeles World Affairs Council.

TAXES

Around-the-clock, around-the-world securities trading is giving the Internal Revenue Service a headache. The IRS, which has been cracking down on alleged underpayments by multinational manufacturers (page 48), is worried about its ability to track the income of international securities dealers. The tax collectors suspect that some income that should be booked in the U. S. is instead being reported in other countries. The IRS plans to ask the securities firms themselves for suggestions on rules covering the allocation of profits among the countries in which they do business.

MARK'S Portfolio

CAN UNCLE SAM MEND THIS HOLE IN HIS POCKET?

Congress hopes for a windfall if it tightens the rules for taxing foreign multinationals

The crisis in the Persian Gulf knocked budget negotiations off the top of Washington's agenda. But as U. S. lawmakers return from their August recess, they're still staring down the barrel of a $230 billion deficit. With voters heading for the polls in November, Congress is drooling over what it thinks could be a painless way to collect billions of dollars in new revenues.

"Before we even start talking about raising taxes on the American people, we ought to take a hard look at the foreign companies operating in this country which are not paying their fair share," says Representative David E. Bonior (D-Mich.). The belief that there is widespread cheating by foreign-owned multinationals is inflaming lawmakers of both parties, from House Majority Leader Richard A. Gephardt (D-Mo.) to hardcore conservative Senator Jesse A. Helms (R-N. C.). Several new bills could give the Internal Revenue Service broader authority to crack down on overseas companies suspected of underpayment.

The campaign-conscious legislators may also be looking for a political bonus from bashing foreigners. "They are companies we love to hate," complains Catherine Porter, a lobbyist for foreign corporations that do business in the U. S. "They are such an easy target." The White House is taking a more cautious line. Unilateral action by the U. S. is likely to bring prompt retaliation. Foreign governments, including Germany and Japan, are already looking more closely at the tax returns of American subsidiaries abroad, which have been playing the tax-reduction game for decades. And a senior official at Japan's Finance Ministry warns: "If Japanese companies are targeted, that might be a problem."

'BAND-AIDS.' The issue is delicate because nobody has broken any laws. By some estimates, foreign-owned multinationals avoid $13 billion to $30 billion a year in U. S. taxes. But shuffling income from one jurisdiction to another to minimize taxes is as old as the multinational itself. And the outdated corporate tax codes of industrialized nations can't keep up with rapid changes in international commerce. "We're trying to hold this system together with Band-Aids and rubber bands," says one U. S. tax official.

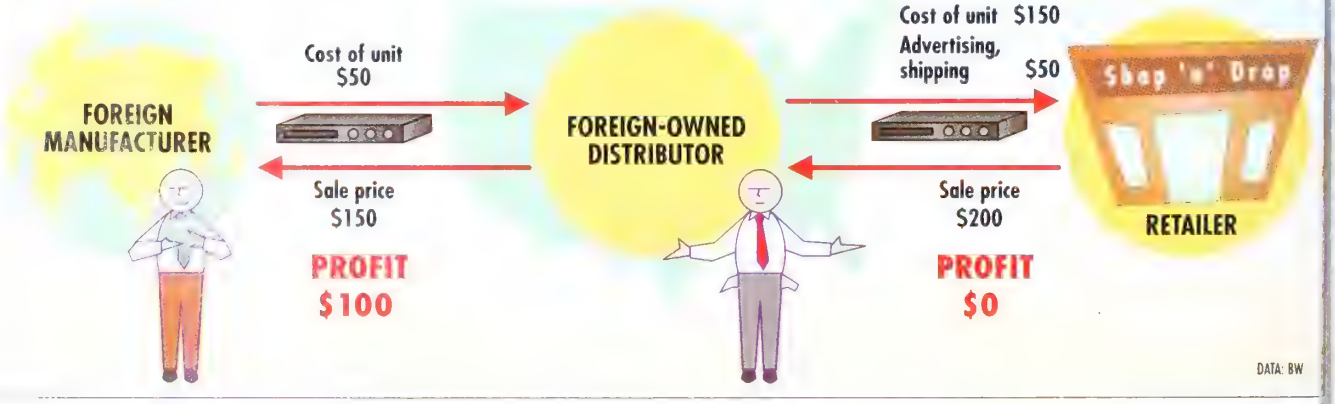
Now, Gephardt and House Ways & Means Committee Chairman Dan Rostenkowski (D-Ill.) are pushing bills that would give the IRS greater access to parent-company records, extend the statute of limitations from three years to six, and slap heavy penalties on companies that underpay. Rostenkowski has warned that if companies don't comply with the provisions of his bill, he will push for even tighter rules that could cost multinationals doing business in the U. S. billions of dollars.

The House Ways & Means oversight subcommittee in June reviewed the tax returns of 36 foreign-owned U. S. distributorships in the car, motorcycle, and consumer electronics industries. They included 11 European and 25 Asian companies. Because government employees may not disclose tax-return information, and because none of the cases against foreign multinationals has gone to trial, details aren't made public. But half of the surveyed companies paid "little or no" tax over a 10-year period, according to the subcommittee's report. The IRS already has cases pending against such Asian giants as Hitachi America, Mitsubishi Electric, Tokai Bank, and Korea's Daewoo.

Washington is targeting the most common tax-avoidance technique, known as transfer pricing (chart). In its simplest form, it works like this: A company headquartered in, say, South Korea builds VCRs. It ships the machines to a captive distributor in the U. S. for sale to dealers. The recorder might cost just $50

TRANSFER PRICING: HOW TO HIDE PROFITS

Foreign manufacturer makes VCR for $50, sells it to its U.S. subsidiary for $150. U.S. subsidiary sells it to retailer for $200, but it spends $50 on advertising and shipping, so it shows no profit. Meanwhile, the home company makes a $100 gross margin on each unit



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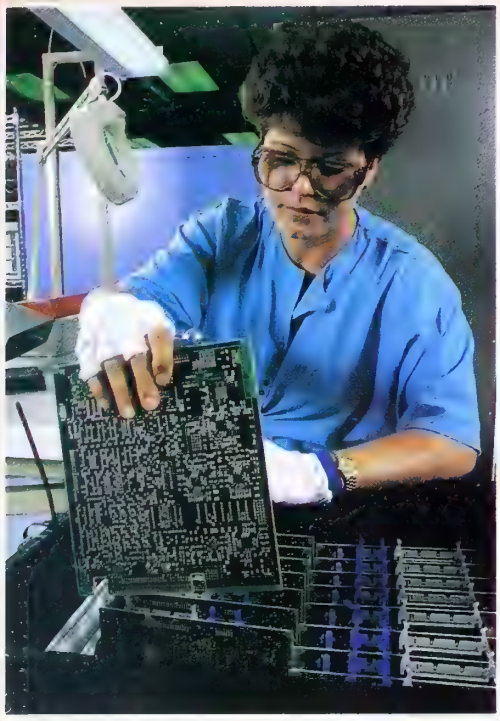

A CRACKDOWN AIMED AT JAPAN

A congressional subcommittee is reviewing the tax returns of 36 multinationals, including several Japanese consumer electronics giants. Hitachi, whose U.S. computer plant is shown here, is already tangling with the IRS. Sony hasn't been placed under any special scrutiny

o build, but it's sold to the U. S. subsidiary for $150. The U. S. subsidiary, in urn, sells the VCR to retailers for $200. Advertising and shipping costs leave it vith no profits and no tax liability. Back n Korea, the manufacturer enjoys a uge $100 profit on each unit and pays axes only at home.

OW LEVIES. The companies most likely o draw attention are those whose tax ills are low compared with revenues. For example, tax reformers point out hat about two-thirds of Sony Corp.'s evenues are from sales outside Japan. Yet that huge sales volume generates nly one-third of its pretax profit, and ess than 30% of its income tax liability s incurred outside Japan. Nevertheless, Sony says it has not been subjected to pecial investigation. Says Neil Vander Oussen, president of Sony Corp. of America: "Those facts in themselves are ery misleading."

Overall, foreign-owned companies ook far less profit on U. S. operations han their domestic rivals. In 1987, the nost recent year for which aggregate nformation is available, U. S.-controlled ompanies earned an average 2.09% reurn on assets, nearly four times their oreign-controlled counterparts.

There are reasons for some foreignowned companies' surprisingly low rates of return. Their 1980s buying binge in he U. S. meant big interest payments on acquisition debt and huge depreciation write-offs for newly acquired plant and equipment. Both depressed the bottom line, lowering tax liability. In addition, many foreign companies, such as American Honda Motor Co., have spent millions building factories in the U. S., and that generates even more write-offs.

Such legitimate reductions have some foreign companies grumbling that they are being unfairly scrutinized. In an effort to head off unilateral U. S. action against British companies, Chancellor of the Exchequer John Major has called for a joint U. S.-British study of international taxation. Dutch multinationals are lobbying to block or reshape the proposed law. "We have been surprised at the proposals made by Rostenkowski and Gephardt," says Han Diebels, director of fiscal affairs at Philips in the Netherlands, whose U. S. operations account for 20% of its $30 billion in worldwide sales. "We certainly do not agree with the rough indications they have given about foreign investors."

FINGER-POINTING. Other European executives are convinced the bill isn't aimed at them. "As far as I know, it was mainly directed at the Japanese," says Willy Snaet, chief spokesman for Belgium-based Bekaert, which makes wire products and derives 10% of its $2.5 billion in worldwide sales from U. S. operations. An executive at Germany's Bayer agrees, pointing out that it makes no sense for German multinationals to shift income back home, where corporate tax rates are higher than in the U. S. And an official of one French company that makes industrial gases in the U. S. is actually pleased about the IRS crackdown. "Some of our foreign competitors pay a lot less tax than we do," says the spokesman, who hopes that the new campaign will level the playing field.

Moves by Washington could provoke what many private-sector tax experts have advocated for some time: scrapping the existing system entirely. One proposal would allow multinationals to report earnings on a worldwide consolidated-income statement. The Organization for Economic Cooperation & Development has drafted an agreement to encourage more sharing of tax and balance-sheet data among nations, but only a handful of small countries have accepted the plan. The treaty is pending in the Senate. At the same time, the U. S. and its trading partners are increasingly conducting simultaneous audits.

But these agreements won't show results for years. And Congress isn't likely to be so patient. Chances are good that the Rostenkowski-Gephardt bill will pass this year. "It's a way to deal with frustration," says Arthur Andersen & Co. partner Richard Gordon. "It's easier to strike out at foreigners than their own constituents." For foreign companies doing business in the U. S., it doesn't take a lip-reader to get the message.

By Howard Gleckman in Washington, with Ted Holden in Tokyo and bureau reports

(L TO R) PHOTOGRAPHS BY JIM ARGO, JOHN S. ABBOTT; GRAPHICS BY LAUREL DAVIS BW

SWEDEN

THE FAST-SPINNING MACHINE THAT BLEW A GASKET

Electrolux' earnings are down—way down—and it's restructuring

CEO AND PRESIDENT ANDERS SCHARP: "WE HAVE TO FOCUS ON CLEANING THINGS UP"

Throughout the '80s, Sweden's Electrolux seemed unstoppable. Making scores of acquisitions worth $4.25 billion, the company muscled its way to the top ranks of the home appliance industry in both Europe and the U. S. Year after year, sales and earnings churned ahead at double-digit rates. It began this year striding ahead with new plants and products, racing with Whirlpool Corp. to be the world's largest maker of home appliances.

Suddenly, Electrolux has stumbled. The relatively thin management structure that worked for a $4 billion-a-year, mostly Swedish company a decade ago has been less successful for what today is a $14 billion multinational. The company has misread its competition, been hurt by weak markets, and tripped up in bringing expensive new plants on line while closing old ones. In late August, bosses in Stockholm reported that second-quarter pretax profits tumbled 56%, to $87 million, on a slight drop in sales. The days of rapid expansion are over for now. "We have to focus on cleaning things up," says President and CEO Anders Scharp.

Electrolux is about to do what everybody thought it was doing all along: concentrate on its core appliance business. The company is slashing 15,000 workers in the U. S. and Europe—10% of its employees—and selling off marginal operations. "Their expansion in appliances obscured just how diversified they were," says Mary Berg, analyst with Svenska International Equities in London.

To be sure, Electrolux is a major force in home appliances. Thanks to all those acquisitions, particularly of Italy's Zanussi in 1984, Electrolux now rings up 20% of the $15 billion that Europeans spend annually on refrigerators, washers, and ovens. And by picking up White Consolidated Industries Inc. and its Frigidaire and Kelvinator brand names for $742 million four years ago, Electrolux got a firm foothold in the $16 billion U. S. appliance market. The company now holds about a 15% U. S. market share and ranks a distant third behind General Electric Co. and Whirlpool.

> Although appliances generated half of sales last year, they contributed just 40% of profits

Although appliances generated half of Electrolux' sales last year, they contributed just 40% of profits. Analysts estimate that operating income from appliances, which dropped 12% last year, will fall an additional 24% this year, to $248 million. The rest of Electrolux is a grab bag of divisions producing everything from aluminum to automobile seat belts and even includes such services as hazardous-waste handling.

BELT-TIGHTENING. With profits heading south this year and next, Electrolux is putting the emphasis on divestments rather than acquisitions. The company plans to sell its sewing machine division, some metal-fabricating units, a Swedish electronics company, and even its $1.3 billion Swedish aluminum division. Electrolux hopes the sell-offs will raise at least enough to offset the $125 million cost of its downsizing effort.

But buyers for most of these businesses may be scarce. For example, successful competition from sewing machine makers in low-cost countries such as Taiwan has eroded the value of the Electrolux operation. Bill Coleman, an analyst with London brokers James Capel & Co., also foresees difficulty in finding a buyer for the Granges Inc. aluminum group because of its high operating costs in Sweden.

There may be even bigger divestments to come. Electrolux Chairman Hans Werthen, who masterminded the headlong expansion, retires next year at 72. Once Werthen departs, Scharp, 56, is likely to feel freer to reshape the company and management. "We were too ambitious and too optimistic," Scharp says.

Electrolux has major problems in its appliance business. On its home turf in Europe, it faces stiff new competition from Whirlpool. The U. S. company arrived in force early last year when it formed a joint venture with Philips, the Dutch giant. At the same time, Electrolux is getting hurt in Britain, where appliance sales are off sharply for everyone. The company is also hurting in Italy, where it has manufacturing plants, because the surprisingly strong lira has boosted costs.

Meanwhile, Electrolux has shot itself in the foot in the U. S. Faced with old, inefficient White Consolidated plants, it poured about $250 million into building two new plants and upgrading a third. But startup problems have cost it heavily. "The new plants have not come quite as quickly as we liked, and we haven't hit our cost targets as quickly as we would have liked," says Donald C. Blasius, president of Electrolux' U. S. holding company. Take the plant moderniza-

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tion in Webster City, Iowa, where the company makes washing machines. "We got the most beautiful equipment," says Werthen. "[But] the end of the [production] line was primitive. They were handling products like taking dishes from a dishwasher."

Electrolux also got hurt when it balked at joining GE, Whirlpool, and others in a price war in the U. S. last fall. "We just didn't go as low as some people wanted us to," says Blasius. As a result, some dealers dropped Electrolux lines in favor of lower-cost brands. The company lost sales and floor space in retail outlets. Now, it's fighting back by matching price cuts and upgrading its models.

Regaining ground lost to GE and others will be tough, especially now, when U. S. appliance demand is flat. All of Electrolux' biggest rivals now offer full lines of products under more than one well-known brand name, and GE has dazzled dealers with its superfast distribution system. In most cases, major dealers can now get overnight deliveries from GE warehouses. This system, a Frigidaire distributor says, "had more to do with Frigidaire losing market share than pricing has." But Blasius insists that Electrolux is on the right track. "The major capital investments are pretty much behind us," he says.

Electrolux stockholders don't seem convinced that Electrolux is bouncing back. The company's shares are now trading near $32, about half of what they were selling for a year ago. But Scharp insists that within two years, the cost-cutting and new plants will have profits at a slimmer Electrolux growing again in double digits.

By Jonathan Kapstein in Brussels, with Zachary Schiller in Cleveland

SOUTH KOREA

HONK IF YOU'D BUY A HYUNDAI

It's hoping two new models will get stalled U.S. sales going again

HYUNDAI'S SCOUPE: AIMED AT THE TOYOTA TERCEL, NISSAN SENTRA, AND HONDA CIVIC MARKET

At Hyundai Motor Co.'s sprawling Ulsan plant, formerly militant workers are putting aside their grievances to concentrate on improving the quality of a new car that could represent the company's last chance to make it in the U. S. market. "We can afford no more defects and recalls," says Hyundai President S. W. Chon. After Hyundai set a record in 1986 for first-year sales by an import-car company, demand for Excels and Sonatas has plunged, and the company now ranks last in consumer surveys on quality.

Hyundai is adding two new models in a bid to get restarted in the U. S. On Sept. 17, it will roll out the Scoupe, a sporty coupe based on the Excel and priced at $8,395. That will be followed early next year with a new compact sedan, code-named the J-car, that will be slightly larger than the Excel but smaller than the Sonata. Scoupe will compete with the Toyota Tercel, Nissan Sentra, Honda Civic CRX, and Mazda 323. "The Scoupe is a good little image vehicle and different enough from Excel to be considered a different model," says J. Jesse Snyder, director of product analysis at AutoPacific Group, a consultant in Santa Ana, Calif.

> The bad times aren't necessarily over: A recent poll of customer satisfaction ranked Hyundai at the bottom

Hyundai needs these two cars to rebuild U. S. sales, which have sagged since peaking in 1988 at 264,282 units. Through July, 1990, Hyundai had sold only 80,542 cars in the U. S., down 28% from last year's first seven months.

STRONG WON. Hyundai targeted the subcompact segment of the U. S. market in 1986, offering a new car at the rock-bottom price of $4,995. The company had a lot going for it: low labor costs and an aggressive dealer network. U. S. sales soared. By 1989, however, Hyundai was getting clobbered by rising costs associated with a stronger won and by strikes that hurt quality and delayed shipments. Hourly wages at Hyundai nearly doubled in just two years. "We believe 1989 is the bottom for us," says Chon. He is counting on the slight depreciation of the won against the dollar to ease cost pressures and on smoother labor-management relations to improve production and quality.

Analysts, however, say that Hyundai's bad times are not necessarily over. It's very hard for a company to overcome a tarnished reputation for quality. In J. D. Power & Associates Inc.'s most recent poll of customer satisfaction, Hyundai ranked at the bottom. Its cars have had trouble with wheel bearings, brakes, and poorly fitting components. A sluggish U. S. economy can't help Hyundai's sales campaign. "Look who they sell to: the people most likely to postpone new-car purchases during a recession," says Snyder. Moreover, first-time buyers are already having a tough time getting loans from banks and finance companies.

Hyundai admits that U. S. sales this year will be disappointing. But aided by the new models, the company expects to move 220,000 cars in 1991. Hyundai will have to floor it to reach that goal.

By Laxmi Nakarmi in Seoul, with Larry Armstrong in Los Angeles

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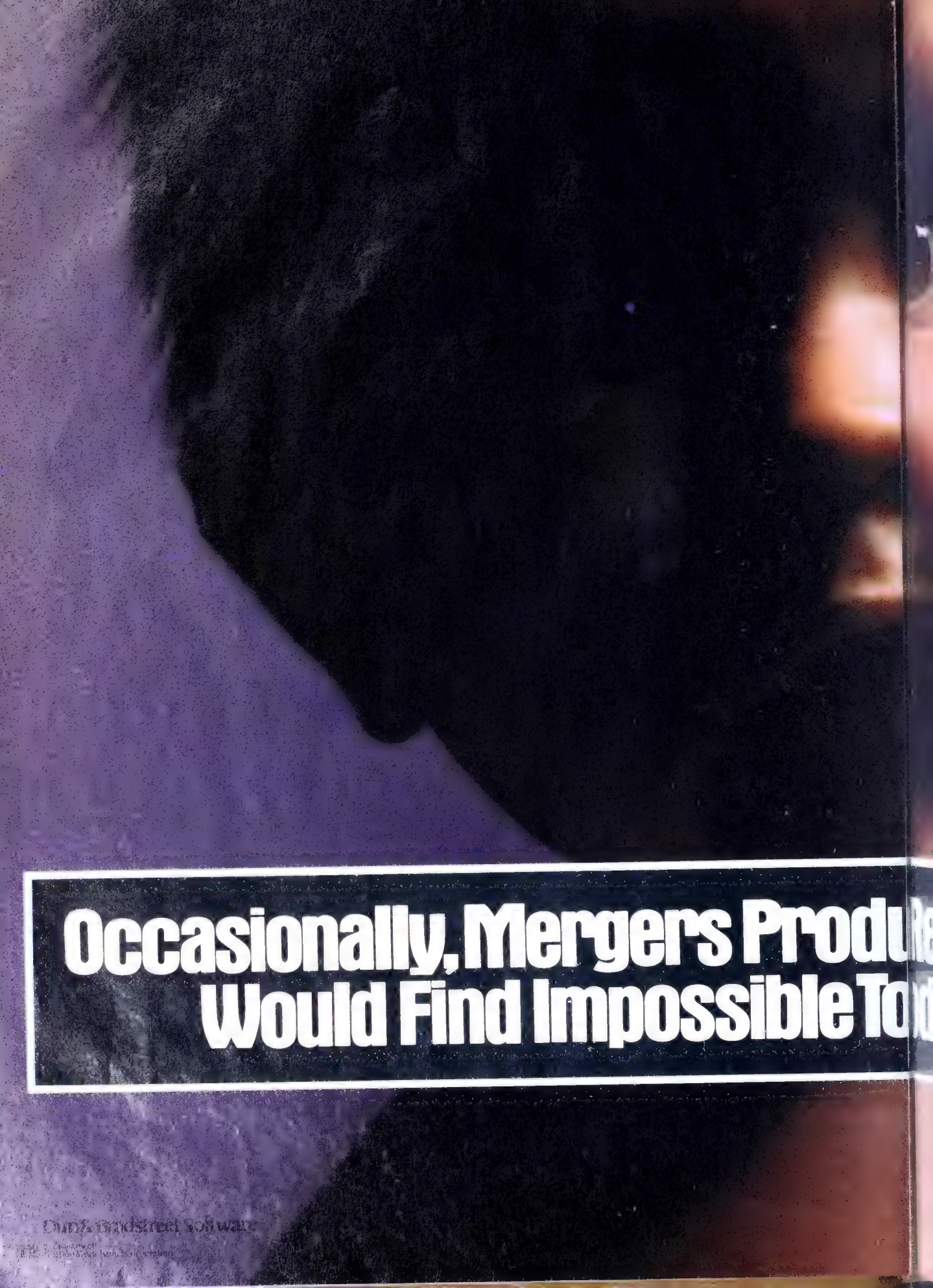
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THE FIRST BIG LOSER IN THE MIDEAST SHOWDOWN: ARAFAT

The military face-off between the U. S. and Iraq has temporarily pushed the long-running conflict between Israel and the Palestinians into the shadows, partly because the ush Administration has urged Israel to keep a low profile hile American troops are in Saudi Arabia. But when the alestinian question reappears, as it surely must, a big factor the debate will be George Bush's new Mideast allies.

Arab leaders such as Saudi Arabia's King Fahd and Egyptan President Hosni Mubarak are likely to urge the U. S. to rod Israel to come to terms with the Palestinns, even though the Palestinian cause's most sible leader, Yasser Arafat, has aligned the alestine Liberation Organization with Iraqi resident Saddam Hussein. Moderate Arab iefs who have sent troops to join the U. S. ilitary buildup could face a hostile political acklash among many Arabs who see little fference between American and Israeli inter-sts. Both Arab observers and Israel's ambasador in Washington, Moshe Arad, see U. S. ressure for a settlement as the only logical utcome.

A JORDANIAN PROTEST

EW CHOICES. But negotiations will take place a world now forming startling new political ignments. The myth of Arab unity has been attered, and "the whole region is being rranged," says Ali Dessouki, a political scienst at Cairo University. Some U. S. officials elieve there are prospects for more constructve relations even with Syria's hardline President Hafez Assad, who sent troops to join the U. S.-led coalition. Up to now, ssad has tried to derail moves for an Israeli-Palestinian setement in order to push his own agenda, including return of he Israeli-annexed Golan Heights.

For the PLO's Arafat, Saddam Hussein's invasion of Kuwait ft little alternative but to side with the Iraqis, since Baghdad home base for Arafat and most of his fighters. But the alestinians will pay a heavy price, including a possible cutoff of aid from Saudi Arabia and Kuwait, estimated at $10 billion over the past 20 years, and the loss of jobs for many Palestinians working in the gulf states. "The Palestinians are finished," says an angry minister of Kuwait's government-in-exile in Saudi Arabia. "Our message to them will be that they had better accept any deal the Israelis are offering." Nevertheless, the Saudis and Egyptians seem likely to patch up relations with Arafat eventually, because supporting the PLO gives them credibility as Arab nationalists.

In Israel, public opinion has been radicalized by the crisis. Yossi Sarid, a leftist Knesset member who has been active in contacts with the PLO, charges that the Palestinians "have buried the peace process." But the political respite Israel is enjoying because of the PLO's troubles is clouded by the Arab arms buildup. The Washington-based American Israel Public Affairs Committee has often lobbied successfully against U. S. arms sales to the Arabs, but now, says a U. S. diplomat in Saudi Arabia, "AIPAC is finished." The crisis may also add $1 billion a year to Israel's oil import bill, on top of big outlays to settle Soviet immigrants.

COOL RESPONSE. To ease these strains and help pay for more arms to offset growing Arab military power, Jerusalem is expected to ask the U. S. to increase economic and military aid to Israel, now totaling $3 billion a year. But Congress, facing a huge budget deficit, is expected to respond coolly to such bids from either Israel or Egypt, another big aid recipient.

In Israel's case, ironically, the gulf showdown has also discredited an argument for U. S. military aid: that Israel is a "strategic asset." Militarily, Israel can't help the U. S., because doing so would alienate Arab support. In the Middle East, as the crisis has shown, the U. S. needs Arab allies.

By Stanley Reed in Amman, Neal Sandler in Jerusalem, and Amy Borrus in Washington, with bureau reports

LOBAL WRAPUP

INDONESIA

Riding an economic boom that will be spurred further by high oil prices, President Suharto appears to be planning to stay on for another five years after his present term expires in 1993. In an Aug. 16 speech, Suharto suggested that he is willing to allow greater political debate and promote human rights in the country he has ruled with an iron fist for 23 years. He seemed to imply that he would preside over this "national awakening."

Suharto's reform talk, analysts believe, is intended to appease critics who have been urging him to retire. They include Defense Minister Benny Murdani and other military leaders as well as Moslem politicians. Suharto has called for more decentralized economic decision-making and a fairer distribution of wealth.

Now, with the economy taking off thanks to financial and investment reforms, analysts believe the military will accept another Suharto term. As part of the bargain, however, he may have to offer a plan to move Indonesia from dictatorship toward democracy.

SOVIET UNION

Good weather in Russia and the Ukraine is producing a bumper grain crop, but mismanagement may waste much of it. Moscow predicts that if the weather holds, 300 million tons of grain will be harvested, with 30 million to 40 million tons left to rot in fields, roadsides, and silos. If so, the usable harvest would top 1978's record 237 million tons. The U. S. Agriculture Dept. forecasts a 230 million-ton yield after a 25% to 30% shrinkage.

Even with a near-record harvest, however, Moscow will have to spend scarce dollars to import 30 million tons of grain in 1990-91. That's down from 38 million tons, costing around $5 billion, in the year ended last June—but still historically high. Incentives to farm workers, including bonus coupons proposed by Russian President Boris Yeltsin, were too little, too late.

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DOW JONES'S $1.6 BILLION BABY IS HARDLY A BUNDLE OF JOY

Telerate, which kicks in 30% of DJ's revenues, is having trouble living up to its stellar promise

Last January, Dow Jones & Co. Chairman Warren H. Phillips threw a bash at Manhattan's Whitney Museum to welcome managers of his new subsidiary, Telerate Inc. Only three months earlier, the two companies scuffled publicly over Dow Jones's unsolicited tender offer for the 33% of Telerate it didn't own. But the tiff seemed forgotten that night. The oratory was chummy, the mood buoyant.

Things were so loose, in fact, that Dow Jones President Peter R. Kann and Telerate founder Neil S. Hirsch pulled a prank on the decorous Phillips. They presented him with a framed version of a full-page ad Hirsch had threatened to run in *The Wall Street Journal*, Dow Jones's flagship paper. Denouncing Dow Jones's "lowball" bid of $18-a-share for Telerate, the ad had irked Phillips at the time. At the Whitney, Phillips was startled by the gag, while some Telerate executives cackled. Says one: "It was rather an awkward moment."

RUDE AWAKENING. These days, Telerate is producing a lot of awkward moments at its parent's glittering offices in New York's World Financial Center. Having been Dow Jones's earnings star in recent years, Telerate, a global purveyor of on-line financial information and transactional services, is suddenly in a severe slide. When Dow Jones first bought a 32% stake in 1985, Telerate was a financial trailblazer, with earnings growing at a stunning 45% compound annual rate. Now, those heady days are gone. Wall Street, Telerate's key market, is in a slump. New competitors are rudely awakening a company that had enjoyed a virtual monopoly for years. And Telerate's freewheeling, entrepreneurial ways have clashed with the publishing giant's more deliberate style.

TELERATE'S HIRSCH AND DJ'S PHILLIPS: MOVING FAST TO REGAIN THE TECHNOLOGICAL LEAD

Those pressures have kept Telerate's annual revenue growth to just 6.5% in the first half, well below the 12% to 20% Dow Jones and Telerate had projected last fall. Now, the parent is feeling the pinch: Operating earnings fell 44% for Dow Jones's information services unit, which includes Telerate and services that feed business news to desktop PCs and terminals. That dragged company-wide net income down 29%, adjusted for a onetime gain last year, to $24.4 million on revenues of $868.7 million, up 3%.

Those weren't exactly the results Dow Jones had in mind when it paid a hefty $1.6 billion for the company in the biggest acquisition of its century-plus history. Phillips was counting heavily on Telerate and other information services to carry him through some rough times in

TELERATE'S TALE

1969 Neil S. Hirsch, a college dropout, launches Telerate to provide commercial-paper price quotes electronically

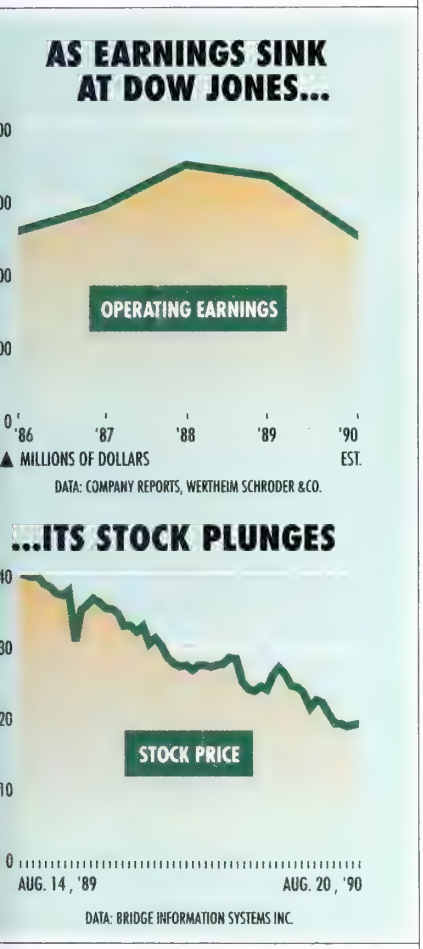
1977 Dow Jones and the Associated Press form joint venture with Telerate to market the service overseas

1981 Telerate gains exclusive rights to distribute Cantor Fitzgerald's real-time government securities quotes, giving it a crucial edge over rival information vendors

1985 Dow Jones buys a 32% stake in Telerate for $285 million

1987 With Telerate earnings growing at an impressive compound annual rate of 45%, Dow Jones spends additional $416 million, upping its stake to 56%

e publishing business. Telerate also of-
rs Dow Jones its best weapon yet at
acking archrival Reuters Holdings
C's dominance in foreign exchange
arkets overseas (page 62).
Phillips certainly needs a hot growth
ospect for the long haul. While the
urnal and *Barron's* may still be the
ul of Dow Jones, they're no longer its
ightest hope for the future. The busi-
ss-publications group is suffering a
otracted downturn. The unit accounts
r 45% of Dow Jones's $1.7 billion in
venues, but its operating earnings



ve fallen every year since 1985. While
st-cutting has helped raise earnings
% so far this year, advertising at the
urnal is down 6.4%.
So Phillips is under tremendous pres-
re to get more growth from his invest-
ent in the information services group,
hich pulled in 41% of total revenues
d 64% of Dow Jones's $335.5 million in
erating income last year. The lion's share of that comes from Telerate. Its glowing green screens and newer offerings zap out news and price quotes on commercial paper, Treasury bonds, currencies, stocks, futures, and options on 89,000 terminals. With Telerate's size and scope, Phillips argues that its woes are temporary. "Our purchase was not based on what 1990 would be but on what Telerate would contribute over a long period," he says.

The tough going could persist. With U. S. financial markets in a funk, investment houses and banks are cutting back on desktop screens. The competition is feeling the heat, but Telerate is suffering more than most. It has been whacked by the collapse of the savings and loan industry, which accounted for about 15% to 20% of U. S. revenues two years ago. "Domestically, the marketplace we're competing in is in something of a mess," says Dow Jones's Kann.

Telerate's slowdown comes just as Dow Jones must bear the full brunt of startup costs for Telerate's new electronic foreign exchange system, The Trading Service (TTS), launched in late 1989. Currency traders use the system to negotiate and execute deals. Last December, Telerate bought out American Telephone & Telegraph Co.'s 50% stake in TTS for $22 million. Now, Dow Jones will be absorbing all of TTS' losses—$51 million last year.

Telerate has come a long way since Hirsch, a college dropout, founded it in 1969 to sell commercial-paper quotes. It began taking off thanks to its ties to Cantor Fitzgerald Securities Corp., a bond brokerage firm, which acquired a 70% stake in 1972. As a broker, Cantor had access to the bond quotes of primary dealers who trade in Treasury notes directly with the Fed. It gave Telerate exclusive rights to publish those quotes and was the only broker willing to share its numbers with outsiders. So Telerate had a lock on the data, and its sales exploded with the government bond market in the 1980s.

SALAD DAYS. When Telerate went public in 1983, Hirsch's 7.6% stake was worth a cool $70 million. Indeed, the 1980s were good to both Telerate and Hirsch. The company's top salespeople pulled down $150,000 to $200,000 a year in salary and commissions, according to a former Telerate executive. Hirsch did well, too. He plunked down $2 million for a seaside home in the tony resort town of Westhampton Beach, N. Y.—complete with the previous owner's furnishings. "All he had to do was move his clothes into the closet," says a business associate. The 43-year-old Hirsch also travels in a glitzy crowd: He turned heads at the *Journal's* centennial party last summer when he arrived with Bianca Jagger.

There were early signs of trouble, however. With little real competition, Telerate didn't make customer service a top priority. One Southeastern bank executive says Telerate was too aggressive with its price increases. "They had some overzealous reps who tried to squeeze every dime they could get," he says. In response, the bank cut its Telerate screens from 100 to 20. Other Telerate users found training and service lacking. Says one Wall Street executive: "I saw my rep when he sold me the terminals and when they were delivered, but I could never reach him again afterward."

> 'Domestically, the marketplace we're competing in is in something of a mess'

Meanwhile, with a loyal core of users, Telerate didn't feel compelled to make big improvements. Dow Jones executives concede that Telerate lost its edge in key areas such as financial analytics—features that allow users to analyze bond or stock performance under different economic scenarios and with splashy graphics. Telerate terminals offered users little power to massage data. That left the company vulnerable to rivals such as Knight-Ridder Inc., which began offering systems based on powerful PCs.

At first, Telerate viewed these new players as upstarts and niche information sellers. Then, Knight-Ridder's MoneyCenter system started grabbing market share. It grew 300% a year from 1985 through 1989 and by 20% this year, to 28,000 screens, despite the financial community's woes. Systems from another rival, Bloomberg Financial Markets LP, that boast sophisticated analytical firepower are also drawing a following.

In 1987, Telerate finally started devel-

Shelling out $148
more, Dow Jones
es its holding

SEPTEMBER, 1989 Dow Jones launches unsolicited, $18-a-share tender offer for the rest of Telerate shares, but Hirsch rejects price as too low

NOVEMBER, 1989 Dow Jones ups bid to $21 a share and buys 25% more of Telerate for $515 million. It now owns 92%

JANUARY, 1990 Dow Jones buys out Telerate's remaining shares for $161 million, bringing Dow Jones's total investment, including expenses, to about $1.6 billion

JULY, 1990 Dow Jones reports that earnings in its information service unit, which includes Telerate, fell 44% in this year's first half

DATA: COMPANY REPORTS

oping what former staffers say was dubbed a MoneyCenter-buster: a system that would allow customers to use the power in their PCs to retrieve and massage market data. But the product that eventually came out in 1988, called Matrix, had problems. Its analytical capabilities were limited, its graphics dull and confusing. Sales were disappointing. Telerate moved quickly to repair the damage, releasing an upgraded Matrix late last year to narrow the technology gap.

As Telerate's troubles grew, Dow Jones was slow to exert control, because it was acquiring the company piecemeal over the course of six years. "That Dow Jones could influence and mold Telerate in the right direction was never really fully comprehended at first," says a top Dow Jones executive. William L. Dunn, who headed Dow Jones's electronic information services unit before resigning late in 1989, pressed Phillips to buy out Telerate at the time of the first investment back in 1985, company insiders say. Phillips argues that buying Telerate in pieces made more sense for the fiscally conservative company.

Once Dow Jones became a 100% owner of Telerate in January, however, it began moving decisively. Kann and others pressured Telerate Executive Vice-President John D. Jessop, who in recent years had taken more day-to-day control from Hirsch, to cut overhead. But Dow Jones's approach struck Jessop and others as patronizing. "I was told to cut Telerate's travel budget while sitting in Dow Jones's corporate jet flying from L. A. to New York," says Jessop.

OLD WAYS. In May, Jessop called it quits, and Phillips moved in Dow Jones Senior Vice-President Carl M. Valenti as Telerate's president. That hasn't quelled fears among Telerate's executives that its creative spirit will be snuffed out by its print-leaning parent. Both Phillips and Kann are former newspapermen, not techies. Indeed, the ink-steeped ways of Dow Jones are best summed up by *Barron's* peppery editor, Alan Abelson, who says of Telerate: "I don't even know how to work the damn machines."

Maybe not, but Dow Jones has started hiring people who do. To rebuild Telerate's technological edge, it has installed top engineering talent. It recently introduced two new analytical software packages and is aggressively marketing its TIQ service, an international quote feed from the world's major exchanges. Telerate is also trying mightily to improve its relations with customers. "The customer is king" now, vows Phillips.

Dow Jones has also managed to sidestep one big potential threat. Later this year, a joint venture of primary bond dealers plans to begin selling a wide array of their quotes—the data once available only through Cantor Fitzgerald. Dow Jones renegotiated Telerate's contract with Cantor, a pact that had made the broker Telerate's exclusive supplier. Now, Telerate can also carry the valuable new data. Phillips can be heartened too, by Telerate's dramatic 20% growth this year in Europe and Asia, which account for 50% of revenues.

And luckily for Phillips, he has little to fear from shareholders, even though they've seen their stock price plummet by 50% since August, 1989 (chart, page 61). About 50% of Dow Jones stock and 66% of the voting power is controlled by descendants of Clarence W. Barron, who acquired the company from Charles H. Dow in 1902. And the family is squarely behind Phillips and his Telerate strategy, says William C. Cox Jr., one of three family members on the board. "This is a big, big thing with us." he says.

True enough. And if Phillips, 64, can make the Telerate deal work, his already strong legacy of helping turn Dow Jones into a journalistic and financial success will surely be enhanced. Cox has it right. As a coup or a mistake, Telerate will be a big, big thing.

By Brian Bremner and Jeffrey Rothfeder in New York

WAR OF THE ELECTRONIC MONEY CHANGERS

The shootout has just begun. Dow Jones's Telerate Inc., Reuters, and Citicorp subsidiary Quotron are going head-to-head inside the world's foreign-currency trading rooms. All three companies have recently rolled out computerized dealing systems, giving traders fingertip access to currency trades. The spoils are worth fighting over: Approximately $600 billion in currencies changes hands daily on the spot market.

Reuters Holdings PLC has owned the business since 1981, when it introduced Reuter Monitor Dealing Service, an electronic network that lets dealers send messages to each other, although actual transactions still have to be cleared manually. Thanks to Monitor, 40% of foreign-currency trades are made over a Reuters system.

THE BATTLEGROUND

NO STAMPEDE. But with its Telerate unit struggling in the U. S., Dow Jones & Co. wants to move into Reuters' turf. Last year, Telerate introduced its own system, The Trading Service (TTS). It's a step up from the old Reuters system: After brokers agree on prices, the trade is executed by a TTS computer. Despite TTS's clear advantage, Dow Jones admits it hasn't yet caused a stampede from Reuters. Even so, Dow Jones President Peter R. Kann says usage has tripled since April.

The competition is heating up, however. Just when TTS was hitting the streets, Reuters rolled out a similar system, Dealing 2000. Then Quotron Systems Inc., best known for providing stock quotes, followed suit. And the technology may leapfrog again soon. Reuters is developing software that will do automated matching: Instead of haggling over a deal, traders can simply feed their quotes into the system, which will display the best bids and offers. The software will turn Reuters into an electronic broker instead of just an information carrier. Reuters can charge about $25 for each transaction, rather than charging only by the number of terminals in use.

Trouble is, the software is still being tested and is nearly a year behind schedule. Reuters apparently wants to make sure that the system is foolproof, because any flaws in the software could be fatal to its attempt to enter this new market.

Whatever the fate of Reuters' software project, Telerate and Quotron will probably have a tough time knocking off the market leader. The U. S. companies are really duking it out for the No. 2 slot, says Kenneth A. Hines Jr., Quotron's vice-president for foreign exchange: "If there's a battle to be won, it's probably Quotron vs. Telerate." Kann, however, says Telerate is gunning for Reuters. Nothing wrong with thinking big. But if Telerate stumbles, being No. 2 could look pretty good.

By Jeffrey Rothfeder and Brian Bremner in New York, with Mark Maremont in London

SHARP PRESENTS THE CASE FOR A VGA 286 NOTEBOOK COMPUTER.

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HOME COMPUTERS

WILL THEY SELL THIS TIME? IBM, TANDY, AND OTHERS SAY YES

Cruising down the interstate between Schaumburg and Oak Brook on a sunny July afternoon, Skip Gladfelter is having a great day. On this flat expanse west of Chicago lurk more than a dozen shopping malls, sprinkled among middle-class suburbs. Gladfelter, an IBM marketing manager, stops at one Sears, Roebuck & Co. store after another. His customary navy blue suit hangs in a closet at home. Today, this khaki-clad IBMer is undercover. At each store, he tells salespeople the same story: He's thinking about getting a personal computer for his wife, his kids, and himself to use at home. What should he buy? At most stores, the salesperson steers him to a new IBM computer called the PS/1.

That's exactly what Gladfelter wants to hear. After all, he has just spent 20 months sequestered in a Lexington (Ky.) IBM warehouse with 50 colleagues, trying to come up with the right hardware, software, marketing strategy, and merchandising tactics to make the PC a hot consumer item at last. Gladfelter's afternoon of mall-hopping was part of a 60-day series of market probes that members of the PS/1 team conducted to see how their carefully laid plans are working. They're eager to make sure that Middle America is, indeed, IBM country. "We think the home computer will be

THE NEW HOME COMPUTER FAMILY

DAD College-educated, 45, Dad holds a middle-management position at a large consumer-products company. With the computer at home, he isn't staying late at the office so often anymore. After dinner, with a copy of the spreadsheet he uses at the office, he tracks budgets and inventory reports. This year, he says, he'll try doing his taxes on the PC

MOM A part-time teacher at the local community college, Mom runs a small interior design business from home. She uses the PC for business correspondence, mailing lists, and bookkeeping. She's thinking about adding a graphics program and a color plotter so she can make sketches for clients on her computer

What's different now? Demand is based on lifestyle changes—the shift to two-income families, the rise of single-parent households, longer workdays, and lengthier commutes

he consumer product of he decade," says George I. Conrades, an IBM se- ior vice-president and eneral manager.

Yes, you heard that in he 1980s, too. Then, con- umers scooped up Com- nodore 64s and Texas In- truments 994As by the hundreds of nousands. By 1983, when IBM jumped in, devastating price war was under way nat left TI with a $624 million write-off nd prompted its quick exit from the narket. IBM's truncated PCjr, ominously ode-named "Peanut" during develop- nent, turned out to be a Big Blue flop. ome $40 million in Charlie Chaplin ads nd big price cuts couldn't make Junior hit. After 15 embarrassing months on ne market, it was yanked in April, 1985.

LONES GALORE. That was enough to nake the mainstream computer makers un, not walk, from the home market. hen a funny thing happened: By 1987, mericans were once more buying PCs or their homes. But they weren't trot- ng home with Commodore 64s or TIs. nstead, they were choosing low-priced nockoffs of the IBM PCs they were us- g at work. They had names like Blue hip and Amstrad and Packard Bell and were sold at Montgomery Ward or High- land Superstores.

Meanwhile, IBM executives were stunned to learn from their market re- searchers that 20% of Big Blue's bread- and-butter PS/2 business computers were being used at home. While none of the major PC makers was looking, the home PC market had grown to 3.7 million units annually (chart, page 66). And this year, consumers are expected to spend $2.8 billion on computers for their homes, says market researcher Link Re- sources Corp.

Now, IBM, Tandy, Apple, and other major PC makers want a share of this emerging mass market. IBM got things going by introducing the PS/1 on June 26. The machine became available na- tionwide on Aug. 28. Tandy Corp. jumped in on July 25 with its latest mod- el for the home, the 1000 RL. Apple Com- puter Inc. is expected to bring out low- cost Macintoshes in October that will appeal to home computer buy- ers. Clone makers such as Zenith, Epson, Sam- sung, Everex, Emerson, and Acer Technologies continue to pitch their low-priced models to home buyers, too. "This is going to be a very hot market," promises Tandy Chairman John Roach.

Why now? This time around, the big PC makers say, they've done their home- work. Last time out, they rushed into the market only to discover the awful truth: Few consumers had any real use for their new toys. It turned out to be far easier to balance checkbooks with a $10 calculator than to do it on a $1,500 computer. That was also true for auto- mated shopping lists, inventories of stamp collections, Christmas card lists, and recipes—all the "conveniences" that the home computer ads extolled.

QUALITY TIME. "This time," says IBM's Conrades, "I assure you, we have it right." The big difference now is that computers have become a fixture in the lives of millions of Americans: Some 28 million workers have personal comput- ers on their desks, while another 8.2 mil-

SIS A 19-year-old col- lege freshman, she commutes to a nearby univer- sity. She's planning to major in business, and would like to land a job in marketing. She uses the family's computer to produce term papers and to write letters to her friends who went away to college. Sis is beginning to learn the spreadsheet and statistical programs she'll need in her advanced courses

JUNIOR The sev- enth-grad- er uses the computer to write essays and reports. He some- times logs on to an on-line service to scan sports statis- tics. But Dad's watching the bills: The service costs about $7 per hour to use. At 12, Ju- nior still prefers the action of his Nintendo to the more ce- rebral computer games

lion PCs are used in schoolrooms, reports researcher WorkGroup Technologies Inc. "Computer literacy is an order of magnitude higher than it was five years ago," says Frank A. Ingari, vice-president for new-market development at Lotus Development Corp. "Psychologically, people are ready in a way they weren't." But the right market psychology only sets the stage. What will motivate people to go out and buy, computer makers say, are lifestyle changes. The shift to two-income families, the rise of single-parent households, long workdays, and lengthy commutes to distant suburbs are all putting pressure on Middle America.

HOME-WORKER MAHONEY: "THE TECHNOLOGY HAS CHANGED THE WAY I LIVE"

A home computer is one way to ease the crunch. With a PC in the den, you can leave the office at 5, get home in time to log some "quality time" with the kids, then fire up the PC to finish the office work. "Without my PC," says newlywed Elizabeth McNerney, 24, a real estate manager who lives in Cheverly, Md., "I'd have to spend more time at work." She uses an IBM clone at home to track clients and figure taxes. That puts McNerney in good company: Link Resources figures that 57% of the 27 million or so American households that own PCs buy them for work-related purposes.

That's not all. Once a PC enters the home for one reason, people start finding others: On average, Link says, home PCs are used by two to three family members. Some 47% want them for schoolwork, for instance, and 19% want to automate their budgeting, tax-figuring, and letter-writing (chart). They're using programs such as Intuit's Quicken check-writing software, which has sold more than 1 million copies. And 465,000 PC owners regularly log on to the Prodigy information network to check stock prices or book airline tickets (page 75).

FASHION CONSULTANT. Some consumers take off in unexpected directions. Connie Johnson, a 50-year-old Chicago schoolteacher and administrator, bought a PS/1 to test educational software. But just as often, she runs less serious programs, such as one that helps match flattering clothing styles to body type. A new find: software to plan a wedding—even though her 20-year-old daughter has no plans to tie the knot. "I believe in being prepared," says Mom.

But these days, home computers are mainly serious business. Fewer than 3% of prospective home computer buyers now say they want to use their PCs for games. That's down from more than 30% in 1985, partly because the Nintendo craze has diverted kids from PC games. But the big change is that most Americans now buy PCs to do job-related tasks or to launch full- or part-time enterprises from home. Some 34.8 million Americans now operate a full- or part-time business from their homes, Link says.

Computer makers see these budding entrepreneurs as a likely market. Take John Mahoney. A former painter and sculptor, Mahoney bought an Apple Macintosh last year to start Millstreet, a desktop design firm he runs from his New York apartment. Mahoney, who has now invested $28,000 in computer gear, specializes in designing corporate brochures and other materials. "The technology has completely changed the way I live," says Mahoney, 45.

Computer makers have studied home workers like Mahoney, harried office workers looking to time-shift their work-

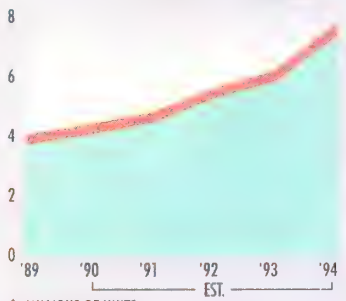
FOR A VARIETY OF REASONS...

Bringing work home from the office or running a home business	57%
Doing school work	47%
Writing letters, budgeting, other personal chores	19%

Note: Some respondents purchased for more than one reason

DATA: LINK RESOURCES

...AMERICANS ARE BUYING MORE HOME PCs...



DATA: DATAQUEST INC

...FROM VARIOUS SOURCES

Computer dealers	45%
Other retailers*	35%
Employers, schools, social groups, etc.	10%
Mail order	5%
Direct from manufacturer	5%

*Includes Tandy Radio Shack stores and dealers that assemble systems and add special software

DATA: IBM

loads, and every other possible variety of home computer consumer. Gladfelter's team, operating from low-rent offices in Lexington, hired consultants, commissioned studies, and conducted focus groups with a total of 3,000 consumers to find out how to sell to them. They even held sneak previews of the PS/1 prototype in malls last Christmas to get feedback. Tandy spent a full year interviewing potential buyers and running focus groups to refine its home computer plan.

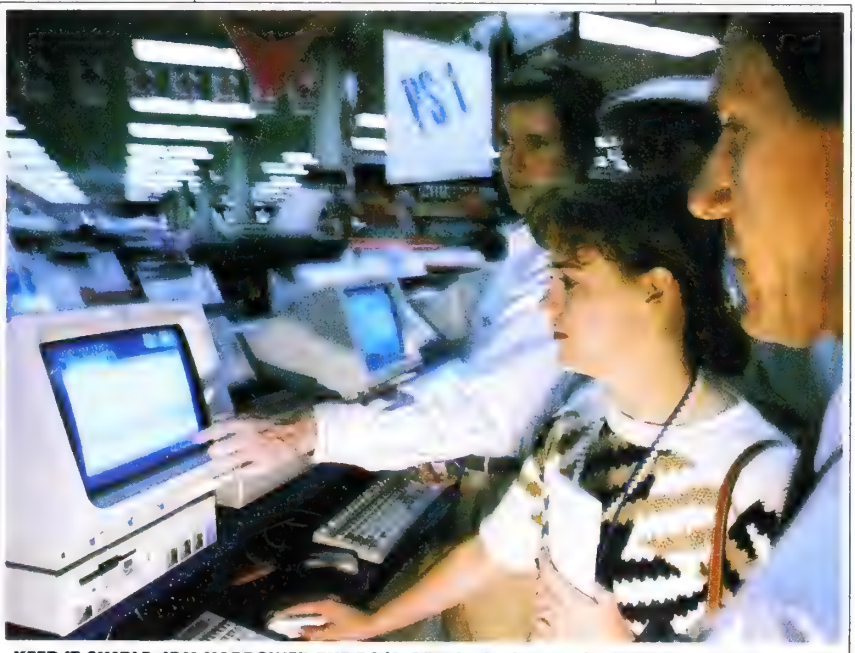
VITAL STATISTICS. By now, IBM knows in great detail who the PS/1 customer is: It's a family with two working parents—at least one college-educated—two children, a household income of $50,000, and a house in the suburbs. IBM also knows that these folks are most likely to buy their PC with a credit card and can be expected to shop for it on a Friday evening after work or over the weekend at a store they've visited frequently.

Still, the new home computer movement has plenty of skeptics. Compaq Computer Corp., IBM's chief PC rival, is staying away. "How many times have we been through this whole home-market thing?" asks Chief Executive Joseph R. Canion. And Apple, which once counted on Christmastime Apple binges for a big chunk of its profits, is making no big claims about this market. "There is a home market, and it's going to continue to grow, but we don't see explosive growth," says Brodie Keast, an Apple marketing director.

Indeed, some of the new home computer push has an all-too-familiar ring. Commodore Business Machines Inc., for example, preys on parental guilt: It's pushing home computers at "superparents" who want their high school kids to score higher on the Scholastic Aptitude Test, says Thomas J. Kilcoyne, Commodore's director of consumer marketing. And Tandy's new home computer comes with a recipe program that compiles a shopping list for modern cooks. "I've been in this business 10 years, and I've never seen anyone store recipes on their computers," sniffs Matthew J. Fitzsimmons, owner of a White Plains (N. Y.) ComputerLand.

But computer makers have good reason to push every possible lever to stimulate the home PC market. With U. S. businesses watching budgets, growth in the domestic PC market has dropped from 14% in 1988 to to less than 10% this year, figures market researcher International Data Corp. "Given the slow state of the PC industry in the U. S., the watchword for the 1990s is to find some new pockets of opportunity," says Bruce A. Stephen, an IDC analyst.

The good news is that the home market still seems ripe for the picking: Only 24% of America's 93 million households now have a computer, says Link. Market researcher Dataquest Inc. figures 4.1 million families will buy computers this year, pushing sales in the home computer segment up 11% from last year. And if the U. S. home computer market takes off, Europe is even more enticing. Just 3% of the Continent's 125 million households own computers, says Dataquest. "We're talking about 85% of the world that's not using a computer today," Tandy's Roach says.



KEEP IT SIMPLE: IBM NARROWED THE PS/1 OPTIONS TO TYPE OF SCREEN AND DISK DRIVE

COUNTERATTACK. That suggests a market big enough for a lot of players—and a lot of niches. IBM has its upscale, suburban families. Apple is most interested in the home-office and student markets. At Atari, "the goal is to target an audience with children in the home," says James Fisher, vice-president for marketing. And then there are marketing programs aimed at women. Tandy expects its PC to sit on kitchen counters, for instance, and Everex System Inc. has tried to feminize its ordinary PC clone with a hot-pink logo. "Women as a market are largely ignored," notes Mark J. Marlow, vice-president for marketing at Everex.

One surprising potential market is senior citizens. Computer makers long viewed older Americans as technophobes, and thus unlikely prospects. But a surprising number are popping up as new home computer owners, say IBM and other PC makers (page 74). One recent convert: Esther Schneiderman, a 76-year-old former secretary living in Miami. As a volunteer at a nursing home, she started using a PC to "chat" electronically over a network with other retirees. Eventually they collaborated, via computer, on a cookbook. "I was surprised to see how rewarding and enlightening a computer can be," she says.

And even if a home computer isn't guaranteed to get Junior into the Ivy League, a home PC is becoming *de rigueur* for upscale kids. "There's a big new demand for computers among high schoolers," confirms Edward J. Hearne, the national manager for Brand Central, the Sears division charged with selling computers. One reason: Many high schools and colleges now require students to complete some work on a computer. Michael Alspaugh, a Mount Airy (Md.) real estate broker, was given a PC by relatives for Christmas two years ago to use for his part-time architectural business. Now, he finds himself bargaining with his five children to get time on it. "The PC brings the family together," he says. "It kind of replaces the television."

Maybe at the Alspaugh house. But lots of families are still firmly rooted in front of the tube. So switching them to a PC screen will still take some selling. "The whole thing is going to boil down to merchandising," says Stephen Cohen, a securities analyst at Soundview Financial Group. In the past, potential home PC buyers have been tripped up by the process of choosing a computer—picking the basic unit, figuring how much internal memory to add, specifying the type of disk drives, and selecting software. Business buyers put up with the process because they have to. Consumers don't. "People are not comfortable with the disjointed buying process," says Lotus' Ingari. If consumers are to buy, he says, they need simple choices.

How simple? With his trademark Texas bluntness, Tandy's John Roach told his designers to make the new 1000 RL simple enough for his wife, who has little experience with computers, to buy and use. "I really felt like we

KEVIN HORAN

needed a computer that people didn't need to go to school to learn," says Jean Roach. The result: a $750 to $1,299 package with everything needed to get started, including Tandy's DeskMate, a graphical "environment" that makes it simpler to load and run programs.

IBM has taken a similar approach with the PS/1. Big Blue says that buyers can get their PS/1s out of the box, plugged in, and running within 15 minutes. The computer has its own graphical program and Microsoft Corp.'s Works, a package that includes word processing, spreadsheet, and data base programs. PS/1 also has a mouse and a modem. Most models come with the software preloaded, including a training program. "To buy a PS/1, you have to make two decisions: whether you want a color screen and whether you want a hard drive," says IBM's Gladfelter. "Those are not difficult decisions."

To sustain the market, computer makers have to come up with ways to make the home PC more useful. For IBM, the answer is information services

SOFTER-WARE. The great simplifier for the home market has been improved software. Programs have evolved in the past five years: Aping the Apple Macintosh, they use symbols or "icons" to represent functions. Instead of requiring PC owners to type complicated commands, new programs let them point and click with a mouse. Packages such as Microsoft Works are intended to provide all the basic functions that consumers or small business owners would want. "We're seeing a skyrocketing business," says Susan W. Boeschen, general manager of Microsoft Corp.'s Entry Business Unit.

Simple software and easy setup won't do much good if people can't bear to shop for home PCs, however. Consumers have told researchers that one of the main reasons for not buying a PC is the prospect of shopping at a computer store and dealing with technical jargon. The feeling is mutual: Computer dealers are wary of neophytes. "With a low margin, you can't spend weeks going back and forth waiting for someone to make up their mind," says dealer Fitzsimmons.

So computer makers are trying to funnel home buyers into department stores and electronics chains. Tandy, of course, has sold computers cheek-by-jowl with stereos and TV antennas for a decade in its 7,000 Radio Shack stores. Now, mass-merchandisers such as Sears, Lechmere, and Highland Superstores are all increasing their home PC businesses. Many of these stores have had some success with off-brand clones, but this year they're adding the big names. "Customers have told us to carry the better products and the latest technology," says Martin Lobkowicz, computer marketing manager for Lechmere Inc., an 18-store chain based in Woburn, Mass. "That's where we're seeing the demand."

After experimenting with selling PCs in department stores, IBM is now making a big push through these retailers. In addition to 1,000 or so computer stores, the PS/1 is being sold at more than 800 Sears stores, as well as at an additional 92 outlets of the Dillard's and Dayton-Hudson chains. Combined, those three chains annually attract shoppers from some 60 million households, IBM says.

Still, mass-merchandisers and department stores present their own problems. Where computer-store employees may be too techie, sales clerks at the general merchandise stores are likely to have only scant knowledge of PCs. "You usually find a person selling in the computer department who moved over from shoes the day before and the next day will be in sporting goods," says Michael Wagner, vice-president for marketing at Laser Computer, which sells its IBM PC clones through Sears, Lechmeres, and other mass merchandisers.

FUN FEST. To allay consumer anxiety, computer makers are taking pains to make buying a home computer seem like lighthearted family fun. Korean PC maker Samsung Information Systems has enlisted TV actor Bob Denver, the hero of *Gilligan's Island*, as pitchman. Home computer ads—sans technobabble—are popping up in *Good Housekeeping* and similar magazines. To set the tone for the PS/1, James A. Cannavino, the vice-president and general manager who heads IBM's PC unit, donned a homey sweater for the press conference to launch the machine.

There's a chance, however, that by seeking the lowest common denominator, computer makers could be aiming too low. For instance, if it turns out that

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Beechcraft
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consumers are more sophisticated than the new IBM or Tandy packages imply, the strategy could backfire. As in the business PC market, a substantial number of buyers may be knowledgeable enough to save money by picking no-name clones. On his recent round of Chicago-area malls, Gladfelter got a taste of that: A clerk at one Sears store slammed the PS/1 as overpriced, then steered him to a Packard Bell PC.

Big Blue insists that its pitch is dead-on. IBM employees, including PC chief Cannavino, have called 300 or so of the "thousands" of consumers it says bought a PS/1 in the first 60 days. Customers are asked how they like the PC and what they plan to do with it. So far, 95% of them say they're "delighted," IBM says. Analysts figure IBM could sell 500,000 PS/1s by next June—not enough to cause them to rejigger their 1991 earnings estimates. Over the long term, however, they say IBM plans to sell more than 1 million PS/1s annually.

Retailers confirm that the PS/1 is off to a solid start. A Dillard's salesman claims his Dallas store sold nearly 20 PS/1s in its first month on the market, more than all the computers the store sold in the prior three years. And most dealers are predicting a very hot Christmas for home computers in general. "It's going to be huge," says Mark Cuban, president of Micro Solutions Inc., a two-store Dallas chain. "We're already gearing up for it."

So is Wall Street. "I think it will be staggering at Christmas," says Rick

CONFESSIONS OF A MAD COMPUTER SHOPPER

We had fretted over the decision for more than a year. My husband and I were reluctant to add this stress to our already harried lives. Sure, nearly all our friends had one and boasted about how rewarding the little darlings were. But we also knew it would demand time we couldn't spare. And it would probably need its own room and special furniture.

Despite our anxieties, we decided it was time to buy our first home computer. Although we both used PCs at work, our technical knowledge didn't go much beyond working the on-off switch. So, armed with advice from friends, Rich and I headed to a nearby mall.

DIZZYING. The friendly salesman in the computer department at Dillard's asked what we wanted to do on our PC. "Writing," I replied. He regarded me quizzically. "Writing," I repeated. He stood silent. "Rating?" he finally asked, wrinkling his brow. My Wisconsin accent may sound weird to Texans, but I hadn't figured on miscommunicating so soon.

He seated me in front of IBM's new PS/1, ignoring the bulky $2,300 Magnavox nearby. He popped off the top and babbled about memory, VGA, expansion cards, and disk drives. The talk made me dizzy, but the PC seemed downright friendly. With a few clicks of the mouse, I was creating files. When we figured out what we'd really need, including a printer, the $1,999 price soared by $600. But the promise of IBM's service and the salesman's enthusiasm were appealing. "I used to be afraid to sell computers," he said. "With IBM, I'm not."

Before our next outing, we figured more homework was in order. Computer catalogs, with their lists of megahertz and I/O ports, proved worthless. One brochure rhapsodized about "disk-caching, ROM shadowing, and LIM 4.0 EMS support in ROM." Stacks of computer magazines didn't offer much enlightenment either. Suddenly, the idea of plugging in a cuddly PS/1 seemed good.

Still, we now were confident that we knew our RAM from our ROM. So off we went to Radio Shack. After asking which word processing program we liked, the salesman dismissed Tandy Corp.'s new home PC, the 1000 RL. "Your needs rule that out right away," he said. He suggested a Tandy 1000 TL/2, which we could have for $1,899, with a dot-matrix color printer. But when we added a modem, a 5¼-inch disk drive, and a 40-megabyte hard drive, the ticket soared to $2,943.16, including tax.

As with the PS/1, the sales approach for the Tandy PCs emphasized fun and easy software, including programs to balance our budget and plan our meals. With the "stereo system of the month" blaring nearby, I didn't catch all the details. But a handy chart comparing the Tandy PC to the IBM PS/1 showed that with Tandy we'd save hundreds and have 7,000 Radio Shack stores to help us in a crisis.

After Radio Shack, we were beginning to feel like old hands. At dinnertime, Rich and I would debate the merits of the Intel Corp. 80286 chip vs. the 80386SX. We scoffed at PCs with less than 1 megabyte of memory.

Our confidence was soon dashed at Mr. Micro. Wandering through the small shop, we attracted little notice until a casually dressed employee approached. He was perplexed when we couldn't specify a computer brand. "I'm a technician, not a salesman," he explained. His advice? Buy a Macintosh. He said the Mac would be simpler to operate than IBM-compatible PCs. Maybe, but I couldn't bear expanding my search to a whole new universe of computers.

CLONE RANGERS. By now, we were itching to spend. And what better place than a "computer superstore" that boasted more than 5,000 computer-related items? At first sight, Soft Warehouse seemed part chaos, part carnival: Families strolled the store with children and computer gear in tow. A salesman recommended a machine based on the 80286 or 80386SX chip. He pointed us to his "system of the week"—a $1,463.99 IBM clone. With the extras we wanted, the total price came to $1,855.

The price sounded good. But one of our magazines had warned against falling for in-house specials. And Rich had doubts about the monitor's sharpness. Finally, we took the easy way out. A friend in the computer business put together an Acer Technologies 80386SX system for us. He's even loading the software. Now if only he sold computer furniture.

By Wendy Zellner in Dallas

DATA OVERLOAD: THE ZELLNERS CRUNCH NUMBERS

HOW FUJITSU HELPS A BIG HOSPITAL STAY SMALL.

Saint Cloud Hospital in central Minnesota is a regional medical center serving a population of more than 425,000 in a ten-county area covering more than 7,500 square miles. It's a highly progressive, rapidly expanding institution with hundreds of doctors, comprehensive services, and an attitude of intense human concern. Patients are never numbers, they're people. And they are treated like people. For all its size, Saint Cloud Hospital still feels 'small'.

CARING INTIMACY

The hospital has worked very hard to ensure an environment of caring intimacy, developing many special programs and procedures and investing heavily in technologies that free its people to focus on people.

One current investment is in hundreds of portable and mobile cellular telephones to give the hospital instant two-way communications with its on-call staff. The phones have put doctors and nurses in touch as never before, and have begun to find a wide range of unexpected uses for themselves —like letting emergency room patients reassure loved ones directly from a moving hospital gurney.

SELECTED FUJITSU

Saint Cloud Hospital, working with its service provider, United States Cellular, studied a variety of cellular telephone brands before it finally settled on Fujitsu. It chose Fujitsu not only for the quality of its telephones but for the quality of the company behind them. Fujitsu is one of the world's largest computer and communications companies—a high-tech powerhouse that's a major force in the global information revolution. With 115,000 employees, projects completed in a hundred countries, and manufacturing facilities across the U.S.A., it's a company that's many things to many different people. To the people at Saint Cloud Hospital, it's a giant that's helping them stay small.

Gary Gibson of Fujitsu talks with Bill Becker of Saint Cloud Hospital and Joe Salaski of United States Cellular Mobile Telephone Network. United States Cellular, a nationwide carrier which operates the cellular network in St. Cloud, Minnesota, strongly recommends Fujitsu phones. For information call Fujitsu at (214) 690-6000.

FUJITSU

The global computer & communications company.

J. Martin, an analyst at Prudential-Bache Securities Inc.

Whether the market remains hot after Jan. 1 is tough to call. For now, computer makers can ride a wave of demand for home computers to do office or school work. But to sustain the market longer-term, suppliers may have to come up with a specific application that really compels consumers to buy—the way Lotus 1-2-3 got businesses to buy PCs. "You want to go to consumers with more than just a box," says Daniel E. Rosensteel, vice-president for marketing at Zenith Electronics Corp. He says the answer may be so-called multimedia technology: software that combines sound, video, and text. IBM says the answer lies in on-line services such as its own Prodigy network. Promenade, a network exclusively for PS/1 owners, will go on-line in September with activities such as electronic chess games.

There are plenty of other ideas, too: Bellcore, the research arm of the regional Bell operating companies, is working on a simple way to make the PC double as an answering machine. At this point, "PCs at home don't provide any function that everybody wants," says Thomas K. Landauer, manager of Bellcore's Cognitive Science Research Group.

DOUBLING UP. Still, computer makers figure Americans are so hooked on electronics—Arbitron Co. says 72% of American households now own VCRs—that home PCs are a natural. Better yet, computer makers think that consumers won't be able to buy just one. As they have with TVs and VCRs, they are likely to buy machines for different parts of the house and for different family members. Market researcher Link estimates that nearly 17% of consumers who will buy home PCs this year will be buying their second machines.

Michael Zimmerman, a quality control manager for General Electric Co., might be one of them. He bought his first PC 18 months ago. Now, he wants one with more power. Besides, he says, his 19-year-old daughter wants a PC for her college dorm room. Like any good father, he wants her to feel right at home, computer and all.

By Deidre A. Depke in New York, with bureau reports

THE PASSWORD IS GEEZER: GOLDEN AGERS LOG ON

When retirement time came, Florida printer Al Gebber wasn't sure how to fill his golden years: The prospect of simply hanging around the house wasn't appealing. So he went out and bought himself a personal computer. Now, Gebber, 80, is president of a Palm Beach computer club that caters to senior citizens. He has developed software that tracks donations and inventory for the South Florida Science Museum, where he volunteers. And in his spare time, Gebber watches his finances on his IBM-compatible PC.

With more free time and money than their younger relatives, older Americans will become an increasingly important market to computer makers. Already, 9% of those between 60 and 69 use a PC at home. Although that's less than the national average of 24%, the number of senior hackers is expected to jump quickly as Americans who have learned to love their desktop computers at work retire.

These consumers are folks like Abe Rich, 79, who spent $1,000 on a basic system eight years ago. Now, he combs computer stores for new gear and just bought his 13-year-old grandson a laptop. Says Rich, who averages three hours a day on his PC: "Just like other people exercise to keep in shape, I work out my mind with my computer."

Older Americans have proven surprisingly open to new technology. Bellcore, the joint research venture of the regional Bell telephone companies, recently worked with the Miami-based Stein Gerontological Institute to test a simple electronic-mail system with 500 senior citizens. A full 97% of them found it valuable to have a computer at home. Now, says Stein Director Sara J. Czaja, they are asking for additional PC-based services, such as health hotlines, home shopping, and electronic banking.

'ROOTS' PROGRAM. Some computer companies have started marketing to the senior market. Apple Computer Inc., which says a solid 50% of Macintosh user-group members nationwide are senior citizens, sells Close View, an add-on that magnifies type displayed on a computer screen. Intuit, a software developer in Menlo Park, Calif., not only prints manuals for its Quicken check-writing program in large type but also gives buyers who are older than 55 a 25% discount. "This is a large and significant set of consumers, and we expect it to increase considerably," says Intuit President Scott D. Cook. Banner Blue Software Inc., a Fremont (Calif.) developer, launched a similar discount program after discovering that half the buyers of its Family Tree Maker genealogy program are over age 50.

Across the country, universities are helping expose seniors to computers. This fall, the University of Miami plans to open a branch in Miami Beach, where 40% of the population is 65 or older. Among the 10 computer courses in its catalog: "How to talk computers with your grandkids." And the University of San Francisco launched SeniorNet, a nonprofit program that, for $25, gives a senior citizen two months of hands-on training, a quarterly newsletter and, at $6.90 per hour, access to an on-line network. So far, the program, which is partly funded by Apple, has trained 4,000 seniors, 1,000 of whom went out and bought their own computers.

Some seniors are even using computers to launch new ventures late in life: Thelma Berkowitz, 65, and her husband are using their home PC to write a book on hotel management. And last month, retiree Donald Schultz used his computer to bridge the generation gap by organizing an international youth chess tournament. That's a far cry from the old rocking chair.

By Irene Recio in Miami

ABE RICH WITH WIFE, ANN: THREE HOURS A DAY ON THE PC

HOW LONG WILL PRODIGY BE A PROBLEM CHILD?

The videotex venture is nationwide at last—but profits are elusive

When they tire of writing term papers, catching up with office work, or balancing the family budget, what will people do with home PCs? Shop? Check the value of their investments? Scan *Consumer Reports*? These are some of the things that Prodigy, an on-line information service, hopes they'll do. Since 1984, IBM and Sears, Roebuck & Co., the backers of Prodigy, have poured an estimated $600 million to developing an information service for ordinary consumers. On Sept. 6, nearly two years after Prodigy debuted in a limited number of cities, it plans to announce a nationwide rollout and some new services—all timed to piggyback the home computer revival.

If home PCs take off, Prodigy could be a winner—and vice versa. Big Blue, with large investments in both markets, is giving away a 90-day subscription to Prodigy with every PS/1. With sales of perhaps 200,000 PS/1s and the nationwide Prodigy rollout, by 1991 upwards of 400,000 more homes could be ready to log on to the network—to shop at stars, book airline flights, trade stocks, or search data bases, ranging from *Road & Track* to *Academic American Encyclopedia*. That would make Prodigy the first U. S. hit in videotex, a market that has attracted, then discouraged, such media giants as Times Mirror Co. and Knight-Ridder Inc. Even Prodigy lost an original backer, CBS Inc., which bailed out in 1986 after seeing how far off the payback would be.

With 465,000 subscribers, Prodigy already rates as the industry success story. Only France's Minitel system, which until recently was given free to telephone customers, is larger. But Prodigy, which charges subscribers $9.95 per month, has yet to turn a profit, and, its sponsors concede, it is still trying to pump up the volume of transactions on the network. So far, Prodigy has attracted about 170 advertisers—including American Express, Chrysler, and Air France—which pay $40 per month for each 1,000 subscribers who call up their electronic ads on PCs.

'RISKY BUSINESS.' But transactions are where the money is. Prodigy takes a commission of 10% or more for every item subscribers order. To date, transaction volume is 50% below plan, according to Prodigy insiders. "We would like to have more people use the system for buying things," says IBM Chairman John F. Akers. Transaction volume is rising—in the past 16 months, as the number of subscribers jumped 350%, transactions rose 450%—but not fast enough. "We're in a risky business," says Prodigy CEO Theodore C. Papes Jr.

Information industry gurus are still lukewarm about Prodigy. It's slow and the screens don't contain enough information, they say. And the goods are expensive. Barbara Quint, editor of *Database Searcher* magazine recently shopped on Prodigy for a fax machine and was appalled to find no discounts. "I don't get to see or feel the product, and Prodigy has the flying gall to charge top retail prices," says Quint. He can't control merchandise prices, says Papes.

Even with its limitations, Prodigy is gaining a following. Unlike other networks, it charges a fixed monthly fee, rather than billing for every minute of use. The company says that 70% of subscribers who pay their first bill stick with the service—like the Braunsteins of Wyckoff, N. J. Nearly every day, Alan, Linda, and children Marcy and Jonathan dial up for stock prices, games, and shopping. On Friday nights, they look up recipes in the on-line cookbook and prepare the family dinner together.

WEALTHY NEWCOMERS. Advertisers and service providers say that Prodigy delivers on its promise of an upscale audience. During the last six months, Manufacturers Hanover Trust Co. has signed up about 1,000 new electronic-banking customers on Prodigy. At $18,000, their average balance is well above average.

Prodigy executives have been hatching plans to make the system more useful. Besides adding new data bases, on Sept. 6 the company will launch a nationwide classified ad section. Prodigy will also announce that the service will be available in every U. S. area code.

Although concerned by the low transaction volume, IBM and Sears say they're in for the long haul. "Electronic selling will be an important distribution channel someday for us," says CEO Edward A. Brennan of Sears. Could be. But only when home PCs become the norm and, instead of heading for the mall, the all-American family logs on for an evening of shopping.

By Jeffrey Rothfeder and Mark Lewyn in North White Plains, N. Y.

THE BRAUNSTEINS: PRODIGY PROMISES UPSCALE USERS —AND DELIVERS

WHAT DOES PRODIGY DO? *A sampling of Prodigy services*

TRAVEL Airlines and hotel reservations via EAASY SABRE

SHOPPING Items from Sears, J.C. Penney, Spiegel, and others

EDUCATION *Weekly Reader, Academic Amer. Encyclopedia**

FINANCIAL SERVICES Stock quotes, discount brokerage, and banking

INFORMATION *Road & Track**, *Consumer Reports, PetCare Guide**

CLASSIFIED ADS Listings from small businesses and individuals*

*Services to be added Sept. 6

ALL THAT LEVERAGE COMES HOME TO ROOST

As the economy stalls out, a host of big companies with big debts face trouble

A weakening economy, steeper interest rates, and burgeoning oil costs are a witches' brew for heavily indebted companies. Their weaknesses first appeared in last year's more benign climate when Resorts International, Integrated Resources, and Maxicare defaulted. Now, with the Iraq factor helping to hobble the economy, heavy leverage will force many more companies to travel the sorrowful road of defaults and restructurings.

Because new junk-bond issues are almost impossible to float and banks are increasingly skittish about loans, debt-laden companies head into the coming bad times with precious few options. Says Joseph C. Bencivenga, head of junk research for Salomon Brothers Inc.: "The situation for the highly leveraged ones has to get worse, since they have no access to capital anymore." Drexel Burnham Lambert Inc., which invented the 1980s leverage craze and rescued several failing participants, is a memory. Many Japanese banks, once eager for the U. S. buyout action, are staying home to deal with their own slumping stock and real estate markets.

It's a harrowing prospect for those U. S. companies that must service mammoth interest payments to face a downturn alone (table). Since the late 1970s, corporate interest expenses have doubled, to 35¢ per dollar of pretax profits, for the average U. S. company. The most vulnerable, of course, are those with above-average debt ratios in cyclical industries. Consider USG Corp., whose wallboard business is threatened by the ailing homebuilding sector. A $105 million bond maturity comes due in December, and a $65 million bank loan is up next year. The company says it can pay the December bill but can't say yet how it will handle the 1991 crunch. Analysts say USG has to persuade the banks to postpone the payback date.

Companies that are the most directly affected by Iraq are big oil users such as airlines. Higher fuel costs and a recessionary drop in passengers is a volatile mix. Among the most vulnerable is Pan Am Corp. It posted a yearly profit only twice in the 1980s, showed more red ink for the first half of 1990, and, with its equity sinking, debt now stands at more than two times capital.

QUANTUM'S LEAP. Jet fuel, up 50% in price since the Kuwait invasion, has an especially big impact on Pan Am, whose planes are among the least fuel-efficient. According to Airline Economics Inc., a Washington (D. C.) consulting firm, only one other U. S. carrier, Northwest Airlines Inc., has higher fuel costs per fleet. Pan Am spokeswoman Pamela Hanlon says the planned sale of its East Coast shuttle—which it hopes will fetch as much as $300 million—will boost the airline by letting it focus more resources on its profitable Latin American routes, now providing one-quarter of its revenue.

Highly leveraged companies in industries that use oil as raw material are little better off. Quantum Chemical Corp., which depends on petrochemicals to make plastic, was limping even before the Mideast crisis: Earnings for the first half of 1990 had dropped by 90% from the comparable 1989 period, to $12.9 million. New York-based Quantum more than doubled its debt last year to discourage raiders, giving stockholders $1.2 billion via a $50-per-share special dividend. The company insists that its health will improve because demand has been picking up and it can pass along higher chemical feedstock costs. But that optimism is not warran

ed if demand plunges in a recession.

Even noncyclical companies that don't use much oil are looking at rough weather. Most of the toys made by Tonka Corp. retail for under $10, so a recession shouldn't devastate sales. Tonka assumed its debt load when it bought rival Kenner Parker Toys Inc. in 1987. Living with this is uncomfortable because of a strategic problem: Tonka gets more than half of its revenues from promotional toys tied to movies and television. That's gambling a lot on the whims of kids. Its last big success was in the mid-'80s, with knockoffs from the film *Ghostbusters*. So the Minnetonka (Minn.) company had a $19 million loss in the first six months of this year. It attributes part of that to more cautious ordering by retailers. A spokeswoman says the company expects sales to pick up and insists it can manage the debt. The danger is that Tonka won't make interest-rate coverage ratios on its $411 million in bank loans, which could trigger higher interest payments. This would leave it at the mercy of the banks, which tend to be more demanding during recessions.

Wall Street is uneasy. Salomon Brothers' recent report on the junk bonds of Gaylord Container, Harcourt Brace Jovanovich, and Kaiser Aluminum, among others, concluded that the companies would be hurt as a result of higher oil prices and recession. But the companies say they can make it through, arguing that the future isn't as bad as feared or that they will be nimble enough to prevail.

ALMS OUT. The heavy borrowing that plunked companies into these worrisome existences at least trained their executives in a vital survival skill: negotiating new financing. R. H. Macy & Co., the venerable department store chain, must pay off or refinance $952 million in debt between now and its fiscal 1993. The easy part will be the first $554 million, using new loans backed by credit card receivables, which are considered AAA collateral.

The rest is more problematic because it depends on an ailing real estate market. Macy's is scrambling to raise $75 million by mortgaging warehouses, plus an additional $35 million selling a Los Angeles office building and the lease on a Chicago store. Other real estate deals may follow. Even if it can sell the property, New York-based Macy's is heading into a grim period for retailers, particularly in its Northeastern home turf. It can ill afford a repeat of last Christmas, when bloated inventories and a price war killed margins. The chain is scraping by, with cash flow covering its $730 million yearly interest payments a scant 1.2 times. Myron E. Ullman III, executive vice-president, insists Macy's has seen the worst and is turning around.

Leverage woes extend to the investment firms that arranged the deals. Here, though, the problems are annoying, not life-threatening. Shearson Lehman Brothers Inc. still holds a $500 million bridge loan for the 1989 buyout of Prime Computer Inc. because the Wall Street firm couldn't replace the issue by selling junk to others. In exchange for boosting its 19% equity stake in the Bedford (Mass.) computer maker, Shearson agreed to a lower interest rate that will save Prime about $40 million annually. That's good news for Prime, which just reported its first quarterly operating profit, $50 million, in 18 months. For Shearson, the refinancing makes the best of a bad thing. A spokesman says it's "a good resolution for both parties."

Nor are banks likely to be sunk by the leverage crunch, though they stand to suffer. While sour commercial real estate loans are their biggest headache, a wave of company defaults will pack a punch. Citicorp has the largest exposure to highly leveraged deals at $8.8 billion, or 3.9% of its loan portfolio. Some $964 million of that is already on the nonperforming list. In percentage terms, Bank of Boston Corp., with $4.8 billion lent to highly leveraged customers, is the leader, at 19%.

Not every highly leveraged company is in trouble. Those in consumer goods will be the least harmed by a slowdown. Even though their bonds have taken losses since the invasion of Kuwait, RJR Nabisco, Duracell, Kroger, and Supermarkets General still generate strong cash flow.

SAFETY FIRST. The leverage era is not dead: Even the much-delayed buyout of UAL Corp. could still happen. What do the deals of the 1990s look like? Safer and more modest. Most deals lately are far less dependent on debt and more on equity. Debt, which has the advantage of tax deductibility, works fine only as long as cash rolls in and lenders are willing to lend. Look at how Hicks, Muse, the Dallas investment firm, bought Neodata, a Boulder (Colo.) unit of Dun & Bradstreet that processes magazine subscriptions. The $85 million Neodata purchase includes $10 million in equity. "Two years ago, that would have been $5 million," says Hicks Muse Chairman Thomas O. Hicks.

Because the big debts assumed in the last decade were based on overly sanguine forecasts, it is tempting to say that the current gloom and doom is overdone, too. Perhaps. But even if oil prices ease, they likely won't drop to pre-Iraq levels. And that inflationary prospect won't allow the Federal Reserve Board to lower interest rates appreciably until the slump is well under way—no comfort to hugely indebted companies. For many of them, this is like a Greek tragedy: For all their great dreams, a fatal flaw could bring them low.

By Larry Light, with Jon Friedman and John Meehan in New York and bureau reports

THE SLOWDOWN COULD HIT THESE COMPANIES HARD

Long-term debt		Comment
Millions	Percent of capital*	
GAYLORD CONTAINER		
$626	78%	Cardboard producer has sunk big bucks into expansion, making it vulnerable as prices sink
HARCOURT BRACE JOVANOVICH		
$1,696	191%	Lower tax receipts could strain school budgets and further damage HBJ's core unit, its limping textbook division
KAISER ALUMINUM		
$716	63%	Up against better-capitalized competitors, Kaiser would suffer from demand dip for aluminum products
MACY (R.H.)		
$4,901	78%	Another bad Christmas would jolt the department-store chain, which is angling for mortgage financing
PAN AM		
$733	184%	Surging fuel costs and declining business travel would send weak airline into nosedive
QUANTUM CHEMICAL		
$2,433	110%	On top of expected flagging demand for plastic comes a price runup in its raw material, petrochemical feedstock
TONKA		
$411	68%	Lagging toymaker faces problems on interest-rate coverage required by banks
USG		
$2,265	242%	With homebuilding drooping, wallboard maker faces large debt maturities this year and 1991

*Can equal more than 100% when equity is negative

DATA: DONALDSON LUFKIN & JENRETTE CORP., SALOMON BROTHERS INC.; STANDARD & POOR'S CORP.; BW

MONEY & BANKING

CAN ED HARSHFIELD 'MAKE THE TAXPAYER WHOLE'?

Columbia S&L's new CEO has acted boldly—but time is short

It was hardly a propitious start. Edward G. Harshfield became chief executive officer of Columbia Savings & Loan Assn. on Mar. 12—only days before the thrift was declared insolvent. He staved off immediate seizure by the Office of Thrift Supervision by agreeing to take a crack at selling off $2.9 billion in junk bonds, acquired in the days when Columbia was a loyal customer of junk-bond king Michael R. Milken. Well, Harshfield pulled off a stunning coup—by cutting a deal on July 24 to sell the huge junk-bond portfolio for more than book value. That will probably not stave off an eventual federal takeover, but it will make it far less costly to the taxpayer.

Such is the latest twist in the saga of the Beverly Hills (Calif.) thrift whose foibles have come to symbolize the wasteful practices of hundreds of S&Ls. The junk sale must surmount several obstacles, but it will probably go through. Now, Harshfield is facing his toughest challenge—keeping the cost of a bailout to a minimum. If he manages that, he will enhance his reputation as an ace corporate troubleshooter. Harshfield is hopeful: "I think we can make the taxpayer whole."

LAVISH PERKS. For the 53-year-old Harshfield, Columbia is a "big, multifaceted, complicated problem"—but by no means the first he has faced in his career. Harshfield worked his way up from repo man at Ford Motor Credit to president of Household Financial Services, and along the way he gained his reputation as a Mr. Fixit—with repair jobs ranging from Pepsi's African bottling plants to Citicorp's Asian operations. Harshfield was running a Merrill Lynch & Co. partnership that invests in undercapitalized thrifts when he was offered Columbia's CEO job by the thrift's board. In December, the board had accepted the resignation of CEO Thomas Spiegel—whose close ties to Milken and lavish perks had worried regulators.

By that time, Columbia was in deep trouble. Most of Columbia's $591 million loss last year came when the new thrift law forced it to write down the value of its junk holdings to market levels. The OTS has filed a civil suit against Spiegel, seeking $5 million in penalties and repayment of $19 million in corporate funds it alleges that he spent on such perks as a gun collection, personal use of a corporate jet, and vacation condos in Wyoming and Utah. Spiegel has denied any wrongdoing.

HARSHFIELD: "WE DON'T SPEND MONEY THE WAY WE USED TO"

Harshfield was encouraged by the OTS, he says, to take the job. At the helm, he has acted swiftly—slashing costs, unloading costly high-interest-rate deposits, and writing down $213 million in overvalued loans, real estate, and securities. Out are such "fringes" as Spiegel's English butler, bodyguards, and executive country club memberships. Executive pay has been slashed 52%. In all, Harshfield says, he has cut $40 million from Columbia's $120 million annual overhead. "We don't spend money the way we used to," he says flatly. "No Uzis, no condos, no limos."

Harshfield also pulled the plug on one of Spiegel's pet projects—a lavish, never-completed $54 million corporate headquarters. Among other things, it features antiterrorist bomb shelters, a stainless steel floor, and leather walls. "Our monument to stupidity," sniffs Harshfield.

Now Harshfield must wrap up disposal of that huge junk-bond portfolio. The successful bidder was Gordon America L. P., a group headed by Toronto-based Gordon Investment Corp. and half-owned by Hong Kong tycoon Li Ka-shing. Gordon agreed to pay $3 billion. The terms are 10% cash, the remainder a note paying 10.5% interest. Shareholders and regulators are expected to approve the deal.

Other obstacles must also be surmounted, though they are unlikely to sink the sale. The agreement, signed days before Iraq invaded Kuwait, carries a standard disclaimer that the buyer could back off in the event of hostilities involving the U. S. or Canada. In addition, Gordon America can cancel or renegotiate the deal if junk-bond prices fall more than 7.5%, as measured by the Merrill Lynch High-Yield Bond Index. Since July 24, that index has dropped 3.3%. Says Harshfield: "Time has never been on our side."

UPHILL FIGHT. Harshfield hopes to sell other Columbia assets at or above book value, and so far he has had some success. A few weeks ago, he cut a deal to sell $507 million of mortgage-backed securities for $11 million more than book value. Sale of the thrift's Motel 6 stock is expected to net more than $55 million, and equity "kickers" that came with earlier junk-bond purchases could eventually bring in $150 million to $250 million more.

But Harshfield is waging an uphill battle against an OTS takeover. On its own, the S&L has little hope of raising the roughly $700 million in capital it needs to meet federal standards. But Harshfield says that the progress he has made so far has vindicated the OTS's faith in him and saved the taxpayers as much as $1 billion. In the growing black hole of thrift bailout losses, that's about as good as the news ever gets.

By Kathleen Kerwin in Los Angeles

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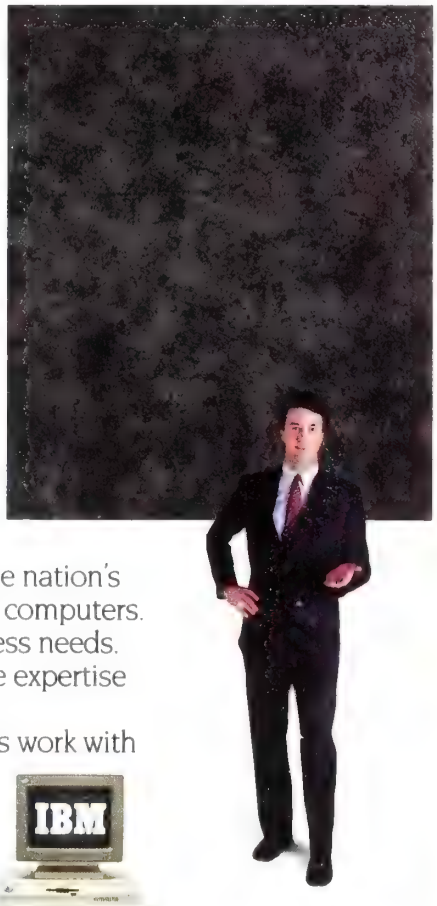

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CITIES

THE CITY OF BROTHERLY LOVE KEEPS TAKING IT ON THE CHIN

Philadelphia's debt troubles go from bad to worse

The scene was Philadelphia's City Hall, Aug. 28. The event: a rally of some 75 homeless people, mostly young mothers with their preschoolers, chanting: "Get the babies off the street" and "We ain't taking no more." The protest was over cuts in funds for food and shelter for the city's 20,000 homeless. This year, Philadelphia will spend $13 million, down from $29 million in 1989. "They're saying, to hell with the homeless," says Kelli Woodley, a 22-year-old mother of three who has been living in shelters for eight months.

Kelli Woodley won't be the only one to feel the sting of budget cuts. Philadelphia is in a severe financial crisis, and deeper cuts are on the way. On June 29, Moody's Investors Service downgraded its debt, making Philadelphia the only city in the country with a junk-bond rating. To avoid insolvency, the city may have to accept an independent oversight board similar to the Municipal Assistance Corp. of New York City, created in the mid-1970s. While Mayor W. Wilson Goode agrees that the outlook is serious, he maintains that Philadelphia "is not the New York of the 1970s."

'UNCERTAINTY.' The downgrade came after Moody's took a hard look at the $2.1 billion budget the city adopted for fiscal 1991. Instead of the $60 million deficit projected for the year beginning this July, the deficit could be $160 million, the rating agency concluded. Moody's doubted that the city could get state approval to raise taxes for transit operations and receive matching state funds for other services—revenues that were in the budget. Now, even Moody's estimate looks low. On Aug. 20, the city admitted the deficit will hit $206 million.

The transition from the City of Brotherly Love to Junk City makes raising money harder. Philadelphia plans to float $400 million in notes on Sept. 10. Although analysts seem sure the issue will sell, Philadelphia may have to pay an interest-rate premium of two percentage points to attract buyers—adding at least $5 million to the deficit, estimates Philadelphia's controller, Jonathan A. Saidel.

How did Philadelphia get into such a mess? "Philadelphia is caught between providing mandated services and a revenue slowdown," says Nancy Barbe, assistant vice-president of Moody's Investors Service. Take the $17.5 million in arbitrated labor contracts for police salaries and $32.4 million for children and youth services that it must pay this year. Welfare costs are also up, from 7.9% of the city's overall expenditures in 1983 to 10.8% by 1989.

The city gets the short end of the stick when it comes to state and federal aid. Philadelphians paid for 61% of the city's budget in 1988, the most of 11 major U. S. cities, says the Pennsylvania Economy League. Just one form of federal assistance, revenue-sharing funds, dropped from $42.4 million in 1986 to zero in 1989. And business-related income and property taxes fell sharply in May and June because of a slowdown in the Northeast that's squeezing the city's service-based economy.

Making matters worse is intense feuding between city and state politicians over who is to blame. The city's outspoken controller has grabbed local headlines by claiming that Mayor Goode lacks leadership and is trying to hide problems with budget flimflammery. For example, the city counted as revenue $25 million in realty-transfer taxes even though the State Supreme Court is expected to order the money refunded, since the required public hearings to enact the taxes were never held.

Goode, who is spending a few hours a week visiting residents from a mobile office this summer, bristles at such criticism. "In my view, it is nonsense for someone to suggest that only the mayor can solve this problem," he says. He faults the city council and the state. Last spring, Goode, who can't run for reelection after his 16 remaining months are up, failed to get city council approval to hike wage taxes. At 4.96% for city residents, they are already the nation's highest. The State House has yet to approve his request to boost city sales taxes by half a percentage point to raise $45 million for mass transit. Besides cutting "nonessential" services, Goode wants to set up an independent, bipartisan panel of state and city officials and business leaders to suggest possible solutions.

But the financial crisis may require much stronger measures. Goode's panel falls short of a state oversight boar with the authority to issue debt or ap prove the city's budget. The mayor ma have to share some control with stat officials and business leaders. "State a sistance and involvement may be nece sary, given the problem the city is ha ing getting money from the state an accessing the financial markets," say William McVail, an analyst at PNC Fina cial. While greater state power wou cost the city independence, it may be t only way for Philadelphia to regain nancial health.

By Leah J. Nathans in New York a Morton D. Sosland in Philadelphia

MAYOR ON WHEELS: *Goode has been visiting neighborhoods in a mobile office all summer—but the spending cuts he has been forced to make aren't playing well*

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BY GENE G. MARCIAL

WHO'S AFRAID OF THE MIDEAST CRISIS? NOT MARIO GABELLI

Mario Gabelli, one of the savviest money runners around, stood his ground when the Dow plummeted from almost 3000 barely a month ago to 2500 in the wake of the Iraqi crisis. The $6.6 billion that he manages through five Gabelli mutual funds was down to $6 billion by Aug. 27. Nevertheless, Gabelli is undaunted, and now he has turned even more bullish.

Gabelli is betting that a peaceful solution will be struck in the Mideast, which would set off a chain of favorable events for the U. S. First, he believes that, to reduce its reliance on Arab oil, the U. S. government will forge an alliance with the Soviet Union to explore and produce oil there. That kind of energy pact will be the next step toward closer U. S.-Soviet ties, says Gabelli. And he believes that agreement could be followed by huge U. S. grain shipments to the Soviets and Eastern Europe.

Gabelli further thinks that, in exchange for U. S. protection, Saudi Arabia will agree in the years ahead to keep production up and oil prices down.

Over the short run, Gabelli expects Federal Reserve Board Chairman Alan Greenspan to start easing credit to offset softness in the economy. He also thinks the Fed will loosen its grip over banks and allow them to be more flexible in lending. These moves will prevent the economy from sliding into recession, he says, and they should also begin to boost stock prices.

Since the market's sharp pullback in early August, Gabelli has been buying shares of companies that he believes will benefit if his economic script is on the mark. Among his top picks: Tenneco, which has tumbled to 57 from its 52-week high of 71; Litton Industries, down to 75 from a high of 98; and Deere, now at 56, down from 78.

HEAVY DUTY. Tenneco is involved in natural-gas pipelines, shipbuilding, farm and construction equipment, automotive parts, packaging, and chemicals and minerals. Litton provides defense and advanced electronics, industrial-automation systems, oil-well logging, and building and overhauling of military and commercial vessels. Deere is the world's largest producer of farm equipment and construction machinery, and Gabelli thinks it will benefit from the expansion of agricultural output. All three companies, selling at depressed price-earnings ratios and with strong balance sheets, should be valuable holdings for both the short and long run, says Gabelli.

GABELLI: BETTING ON A PEACEFUL SOLUTION

A LOW-FLIER THAT COULD TAKE OFF

Few stocks, especially low-priced issues, have escaped the market's wrath in recent weeks. One victim has been Primark, a highflier during the 1980s. It peaked in 1988, when the diversified health care-information company spun off its huge utility division. Then trading at 24, the stock went into free-fall after the spin-off. It has been hovering around 7 since July, and some asset-value players believe Primark is a compelling buy.

"It's your classic undervalued, cash-laden company that could be a home run," says money manager George Clairmont, president of Clairvest. He notes that Primark has cash after taxes of some $7.30 a share, with no debt. Its book value is $11 a share, according to 13D Research, and some analysts estimate a breakup value of $15 a share.

In addition to operating Hospital Satellite Network, a private television system that disseminates health care information to the medical community, Primark provides medical-claims processing, mortgage banking, and freight services. It also owns and leases eight underground natural-gas storage fields to major drilling companies.

Clairmont says Primark Chairman and CEO Joe Kasputys has demonstrated in the past his commitment to enhancing shareholder value. He notes that Kasputys presided over 26 mergers, acquisitions, and spin-offs while he was in charge of corporate development at McGraw-Hill (publisher of BUSINESS WEEK). Kasputys owns about 6.3% of Primark's shares.

Neil Weisman, president of Chilmark Capital, which has a 20.6% stake, is another Kasputys fan. Weisman is confident that Kasputys will soon put Primark's cash hoard to good use through a big merger or acquisition. Weisman wouldn't comment on whether he intends to increase his stake or make a move on the company. Another Primark stakeholder: Steinberg Asset Management, which holds 5.8%.

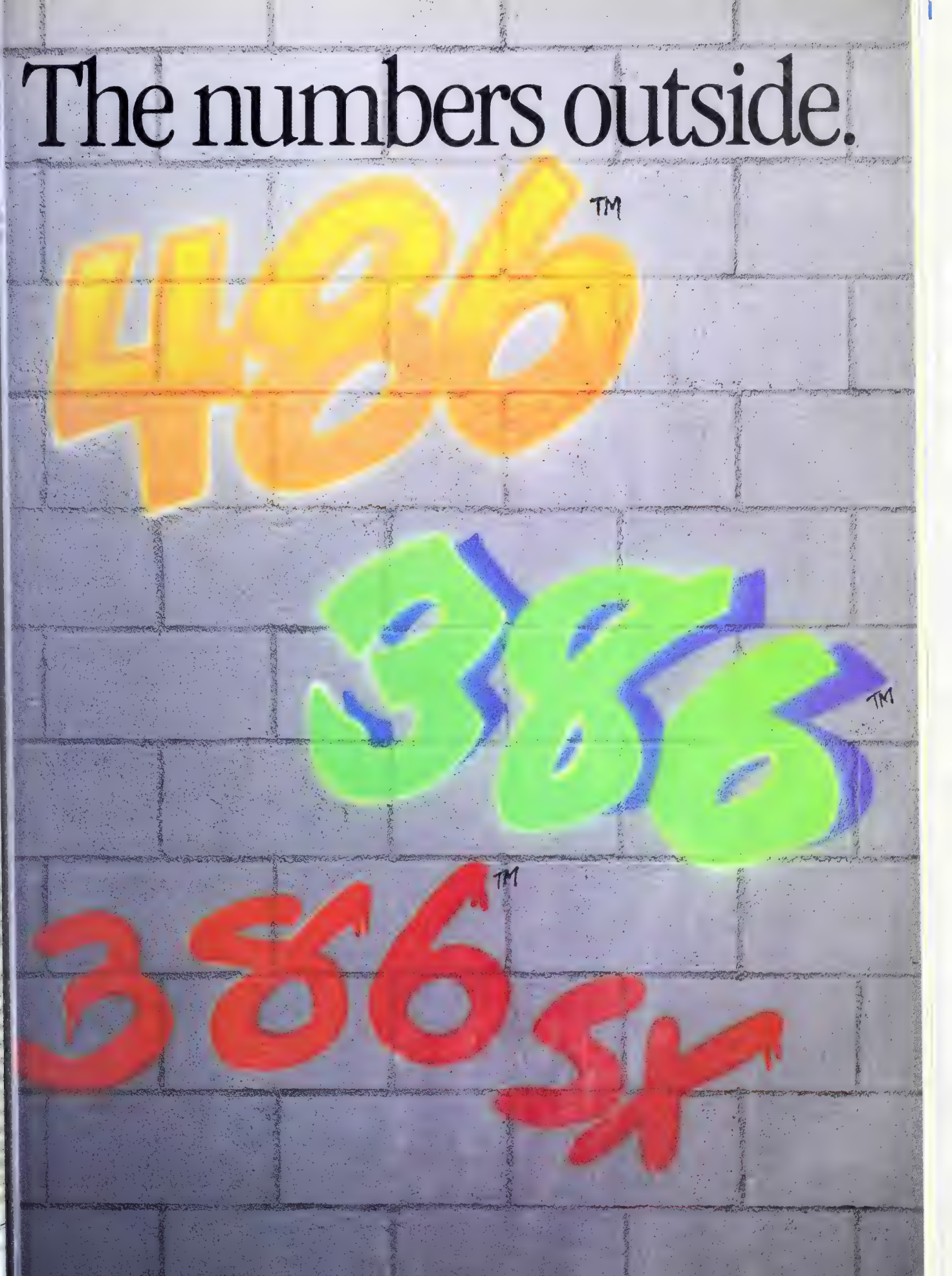
THE ACTION IN ANOTHER GULF

No matter how the Iraqi crisis plays out, the Gulf of Mexico could provide an intriguing investment play. Analysts say the gulf will see significant growth in oil-and-gas exploration in the 1990s even if oil prices fall. And the smart money is looking hard at little-known Marine Holding, the largest jackup rig-drilling contractor in the Gulf of Mexico. A New York money manager who owns nearly 5% of the stock notes that demand for rigs in the U. S. started to turn up around the end of July, and exploration interest in the Gulf of Mexico has heightened since the onset of the latest Mideast mess.

Sam Albright, an analyst at Howard, Weil, Labouisse, Friedrichs in New Orleans, also likes Marine, which is now at 7½. "Its fleet of 23 rigs serves a loyal base of independent and major oil-and-gas companies," he says, "with a current 15% share of the market."

True, the company has yet to make money and is highly leveraged. But Albright thinks Marine is undervalued compared with other major offshore-drilling stocks. Based on expected cash flow and "peak earnings power" from 1992 through 1994, Marine "has the best value," says Albright. He says Marine will benefit from an "explosive upside leverage in earnings and cash flow as day rates for rigs rise." Judging by the replacement cost of Marine's fleet of rigs alone, Albrecht figures the company is worth $25 a share

The numbers outside.



INVESTIGATIONS

NABBING THE S&L CROOKS

In most cases, the Justice Dept. is prevailing in the courtroom

Attorney General Richard L. Thornburgh fancies himself something of a baseball fanatic. So it's no wonder he describes his agency's massive probe of fraud in the savings and loan industry in terms of home runs for the Bush Administration. Up on Capitol Hill, though, Democrats have another view. They portray the Justice Dept.'s two-year crackdown as a series of errors, wild pitches, and bloopers.

But as Democrats and Republicans maneuver to pin blame on each other for the $500 billion S&L fiasco, the truth about the Administration's ballyhooed crackdown has been largely obscured. In the past two years, federal prosecutors have amassed hundreds of convictions or guilty pleas and won sentences of up to 30 years. Of the cases that went to trial, the feds have lost few (table). And major probes are still continuing, including one against Charles H. Keating Jr. of Lincoln Savings & Loan.

Now, the government's net is widening from its early focus on Sunbelt thrifts. James G. Richmond, who was appointed Justice Dept. special counsel this June to coordinate the thrift cases, says the department is increasing its efforts in the Northeast. And prosecutors hope that the lower- and midlevel employees they've already nabbed will soon finger higher-ups. "We'll see more cases against bigger fish," predicts New Jersey's U. S. Attorney Michael Chertoff, who has snagged some seven indictments or guilty pleas involving banking fraud in the past three weeks.

The S&L intrigue is also moving beyond the thrift industry. Commercial bank failures are now included in the dragnet. And sources tell BUSINESS WEEK that Labor Dept. investigators have met with Justice officials to discuss S&L-related pension-plan fraud. Prosecutors also are just now exploring ways to use powerful new measures included in last year's thrift bailout law that let them seek large damage awards from those convicted of S&L crimes. And a pending crime bill in Congress would impose minimum 10-year jail terms for some future S&L crooks.

In the end, though, taxpayers, who will have to foot the bill for the S&L fiasco, may have little to cheer about. A five-year statute of limitations may bar the feds from prosecuting many top executives, since much of the S&L looting occurred in the early and mid-1980s. Also, judges seem reluctant to give pinstriped family men stiff jail terms. And the chances of recouping huge sums are slim. "People who go to jail don't pay much restitution," notes U. S. Attorney Marvin Collins in Dallas.

'DIRTY HITS.' He should know. Although the investigative fervor is spreading, the Dallas Bank Fraud Task Force remains the model for pending probes. When it was formed in 1987, "we had a philosophy of quick, dirty hits," says Edwin J. Tomko, the former Justice official who set it up. The rifle-shot approach has proved more successful than a traditional shotgun strategy of wrapping all charges into a big—and confusing—indictment. Prosecutors probing the $1 billion fall of Miami's CenTrust Savings Bank may bring several cases for that reason. "We're not trying to put juries to sleep," says Anthony Adamski, who heads the FBI's financial crimes unit.

The simpler cases increase the odds of conviction, but the strategy troubles defense lawyers. "It's devastating to an accused person to have to fight a series of indictments," says Dallas attorney Robert L. Smith. And the narrower cases still average four years to complete.

In the case against Sunrise Savings & Loan, a failed West Palm Beach (Fla.) thrift, the feds began studying the S&L in the spring of 1985, months before its $1.5 billion collapse. But it wasn't until 1987, after poring over hundreds of transactions that they selected se-

S&L FRAUD: A SCORECARD

The Justice Dept. says fraud may have tainted as many as 30% of failed banks. Prosecutors got $50 million last August to spend on investigations. In October they expect $75 million more. Here's how they've done since October, 1988:

▶Pending investigations	654
▶Indictments	310
▶Convictions	211
▶Acquittals	5
▶Restitution ordered	$57 million

DATA: JUSTICE DEPT.

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en. They used them as the basis of an indictment they thought a jury could understand. Prosecutor Lothar Genge then spent $10,000 for charts detailing the transactions, but he also used the human touch. He showed jurors a photo of a big Sunrise borrower wearing a $1.3 million diamond ring that the feds claimed was bought with proceeds from a construction loan. Last summer, former Sunrise President Robert C. Jacoby was convicted of loan fraud and conspiracy. Prosecutors recommended a 15-year jail sentence, but he got a 5½-year term. While he appeals, he remains out on bail.

Defense lawyers claim that the role of fraud has been vastly overstated and that the prosecutions are just part of the "blame game" being played out in Washington. Judges are skeptical, too. In Brooklyn, N. Y., last year, U. S. District Court Judge Jack B. Weinstein blamed federal government policies for the failure of Flushing Federal Savings & Loan Assn. and dismissed fraud charges against former President Carl Cardascia. Regulators told the thrift's board "it had to take more risks," the

> Prosecutors are keeping the cases simple—'We're not trying to put juries to sleep'

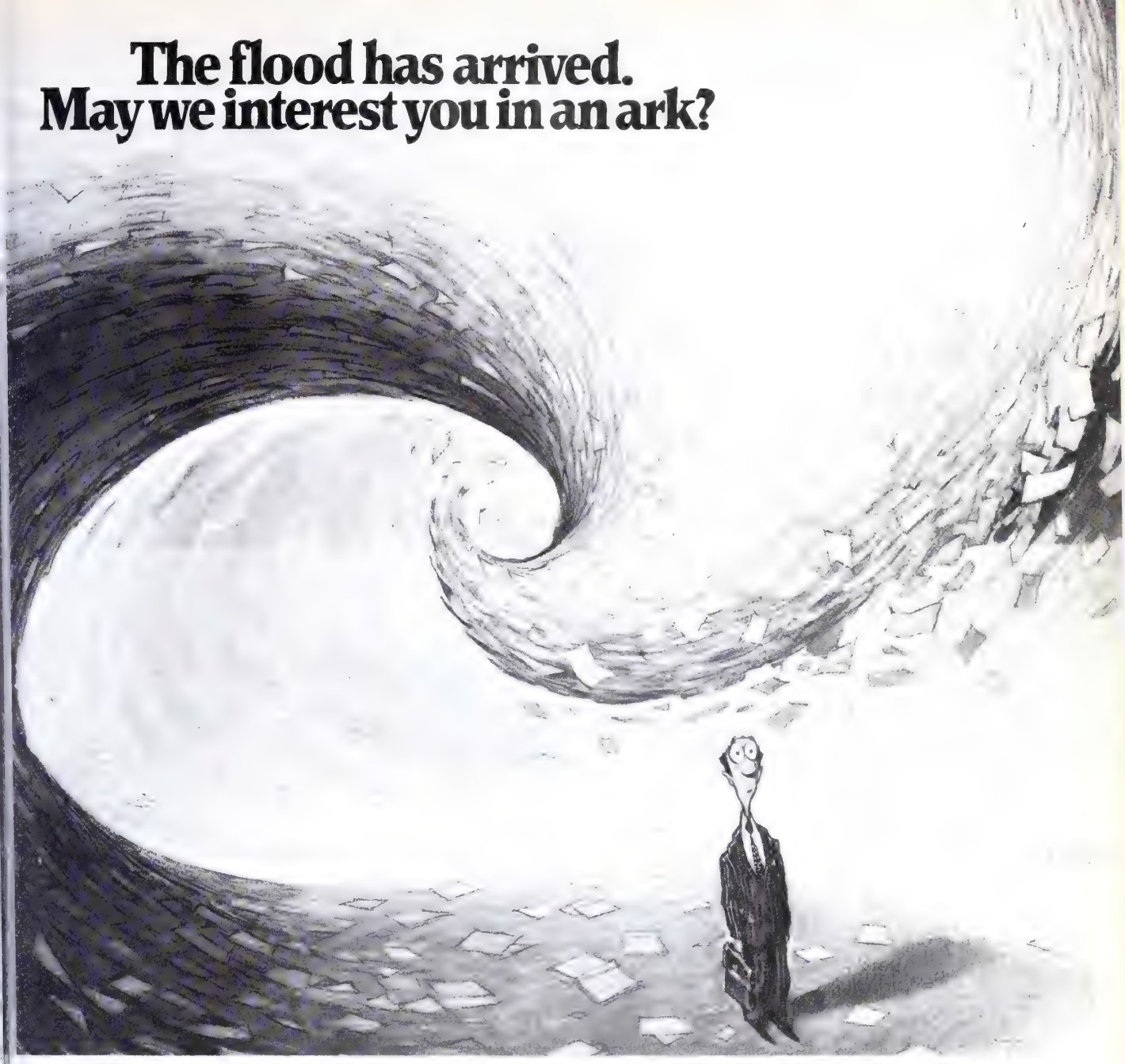
judge said. But in a second case tried this spring, Cardascia was convicted of granting loans in exchange for kickbacks including stock and Piaget watches. On Aug. 24, he was sentenced to two years in jail and ordered to pay $100,000 in fines and $7.9 million in restitution.

LONGER REACH. Prosecutors say they are convinced that fraud was pervasive in the S&L debacle. And they're determined to pursue it despite the costs. They're hoping that a doubling of the statute of limitations in the 1989 thrift bailout law will provide more leeway to bring cases, though defendants are sure to challenge the statute's reach to activities that predate its passage.

By the time the final score is tallied, the public's outrage—and the attention of Congress—will probably have long faded. But Justice officials say they won't give up. "This problem is a lot bigger than anybody ever thought it was," declares Special Counsel Richmond. "We're going to follow this long after the TV lights are gone."

By Tim Smart in Washington, with Wendy Zellner in Dallas, Gail DeGeorge in Miami, and Michele Galen in New York

The flood has arrived. May we interest you in an ark?



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FAST FOOD

FLARING TEMPERS AT THE FROZEN-YOGURT KING

As times get tough, TCBY franchisees say they bear an unfair load

When franchisees of TCBY Enterprises Inc. gathered for their annual convention in Dallas last March, the meeting seemed to be a routine mix of schmoozing and boosterism. Franchisees recall it as part Las Vegas nightclub act, part revival meeting: Marie Osmond sang, and Frank D. Hickingbotham, chief executive of the country's largest frozen-yogurt chain, exhorted his "franchisee family" to greater glory.

But outside the convention, a bitter family feud was brewing as angry store owners tried to recruit members for an independent association of disaffected franchisees. Behind the dispute is a belief among some that Hickingbotham is unfairly forcing them to bear the costs of tougher competition. What especially galled the franchisees was that their parent company wasn't sharing the pain. Instead, through last June, TCBY, based in Little Rock, kept scoring record increases in sales and profits by adding new outlets, even while same-store sales fell for four straight quarters.

But now, the tide of bad news has reached the top: TCBY says its third-quarter earnings will be off by as much as 42% compared with last year's—the first earnings decline ever. Worse, analysts say same-store sales fell 15% in June and July.

For franchisees, disastrous results from the crucial summer season have ominous implications. Says Michigan store owner Stephen A. Sherwood: "Many of us are history within months." Sherwood, who headed the dissident group, recently filed for bankruptcy protection after TCBY sued him for falling behind on royalty and other payments. Sales at his five stores plunged 30% in July.

TCBY blames bad weather, a faltering economy, and rival brands for the drop in earnings. Frozen yogurt was a novelty to health-conscious consumers a decade ago, when TCBY started. (The initials stand for The Country's Best Yogurt.) But now, you can buy the cold treat almost anywhere—from corner gas stations to giant retailers such as International Dairy Queen and Baskin-Robbins Ice Cream. Even McDonald's has jumped into the $1 billion market.

Nevertheless, beleaguered franchisees say too much of the competition is coming from newly opened TCBYs. William J. Walker, a Detroit franchisee, has closed three of his six stores. He claims the 40 other TCBY outlets in the Detroit area are siphoning off his business.

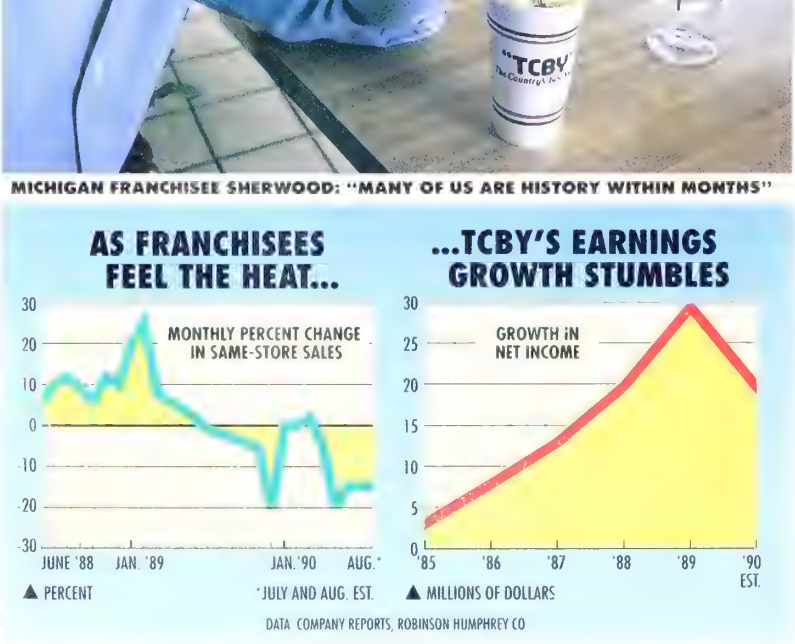
COLD COMFORT. TCBY, which posted record earnings of $29.5 million in 1989 and systemwide sales of $303 million (chart), won't lose its dominant position anytime soon: With 1,800 stores, the company has 34% of industry sales. It can also rely on low debt and a strong brand name. But investors fear a shakeout after years of double-digit sales growth. Even TCBY admits its 1990 earnings may slip to $20 million.

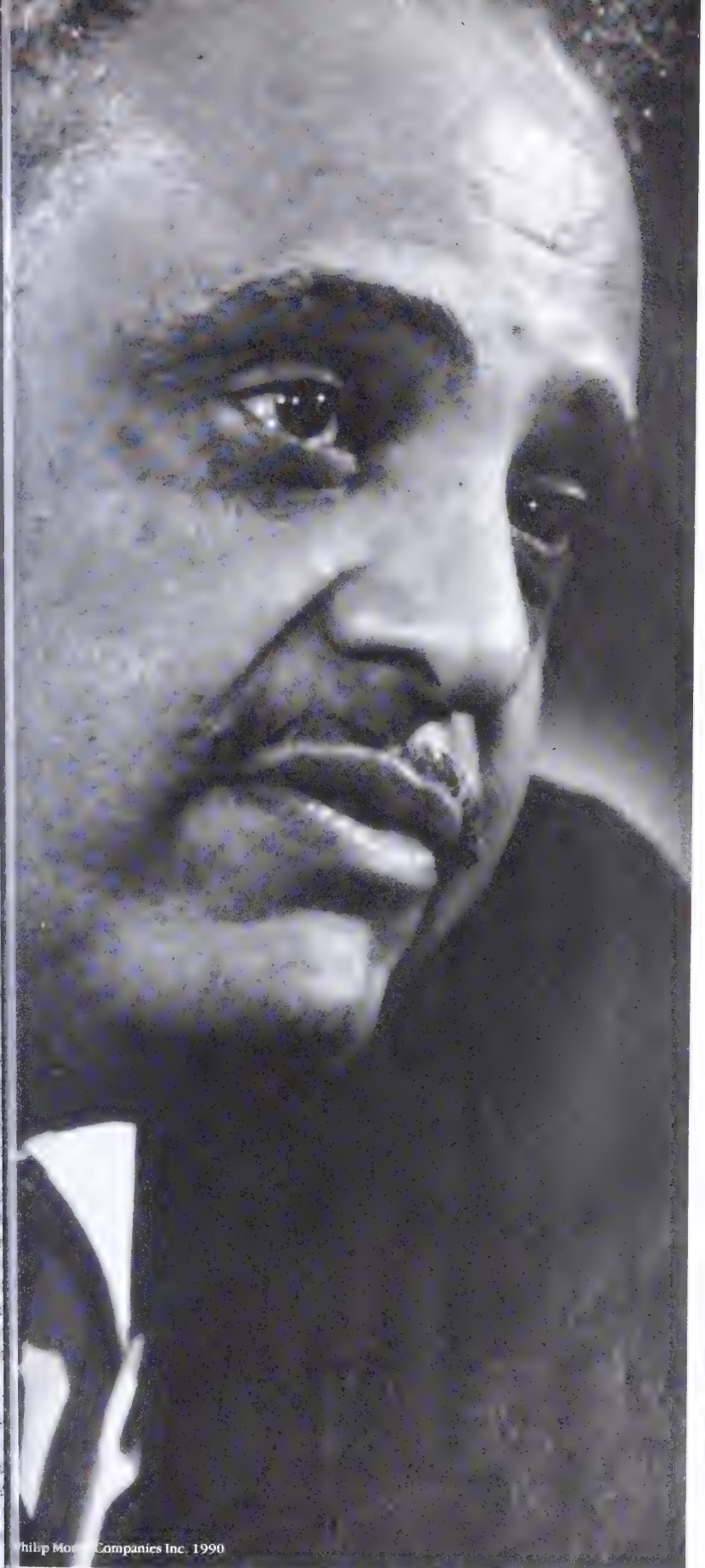
Meanwhile, Wall Street has been dumping the once high-flying stock. "[Frozen yogurt] is a generic-type product," says Gordon M. Fines, portfolio manager at IDS Financial Corp. "It was hard for me to differentiate why TCBY was better." IDS recently sold most of its 7% stake. Other major investors have bailed out as well, forcing TCBY's shares down to a recent 7¾ from 24 in April.

The company acknowledges that some franchisees are being squeezed, but it expects the problem to be short-lived. Mimi M. Hurst, TCBY's vice-president for communications, says new competitors simply introduce more consumers to frozen yogurt. As she sees it, keener competition may cost some customers now but will help in the long term.

That's cold comfort to many franchisees. Nearly a quarter of TCBY's stores are failing, according to Mark A. Roberts, president of Off Wall Street Consulting Group Inc. in Cambridge, Mass. "The franchisees are running

MICHIGAN FRANCHISEE SHERWOOD: "MANY OF US ARE HISTORY WITHIN MONTHS"





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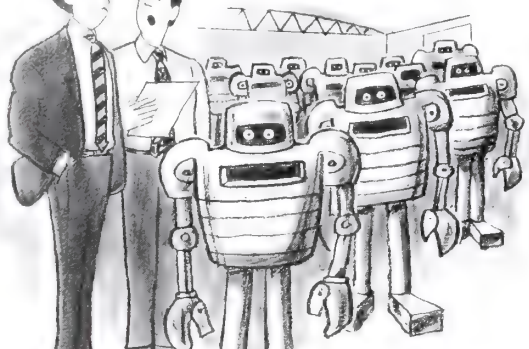

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out of money," says Michael W. Evans who heads a franchise association tha was formed with TCBY's backing to hea off dissident franchisees.

For quick relief, the association is urg ing TCBY to cut the wholesale price i charges for yogurt by 15% to 20%. Som franchisees claim the company's margi on yogurt sales to stores is 60%. TCB won't disclose its margin but says i hasn't raised the price since 1983. Fran chisees are also asking TCBY to waiv royalty and ad payments, restructur loans, and beef up marketing efforts.

TCBY has made some concessions: Af ter a spring ad campaign produced fev results, the company will now select new advertising agency—with franchi see help. And it is letting franchisee sell products such as yogurt bars to res taurants and other outside vendors.

The all-yogurt menu is another sor point. Analysts say TCBY won't be abl to boost its sales per store without add ing new products. One competitor, Ev erything Yogurt Inc., also sells past salads and sandwiches. But TCBY has n plans to stray from yogurt. Instead, it i

What rankles TCBY franchisees most: The CEO's corporate jet, Rolls-Royce, and $1.7 million a year

trying to expand abroad and increas sales in supermarkets and restaurant TCBY says it will cut franchisees into th action, but some are skeptical.

Hickingbotham is also getting he personally. Some franchise owners que tion whether the 53-year-old former hig school principal has the manageme savvy to steer TCBY through rough w ters. Hickingbotham started the comp ny in 1981 as a retirement project. H first store was three blocks from t golf course. With 38% of the stock, still runs TCBY like a family busines His two sons, brother, and brother- law all head divisions. But what rankl owners most is Hickingbotham's princ ly compensation: $1.7 million in sala dividends, and stock options last ye He also drives a Rolls-Royce and trav by corporate jet, often with his dog.

When franchisees were sharing in t wealth, griping was rare. But as st sales have slipped, Hickingbotham h found it tough to keep his "family" gether. Now, he may need a good d of brotherly love to keep TCBY's ea ings from melting further.

By Wendy Zellner in Dal

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ROCHE IS REVIVING, BUT IT STILL NEEDS MORE DRUGS

Buying Genentech may give Roche a biotech boost, but it has yet to regain the oomph Valium gave it

When Fritz Gerber, the chairman of Swiss drug giant Roche Holding Ltd., checked in for exploratory hernia surgery two years ago, he decided to try Anexate, a new Roche drug that reverses sedation. Sure enough, 45 minutes after the procedure, he felt shipshape and headed for the office, having saved about $1,000 in hospital room charges. Today, Roche is hawking Anexate as a tool to hold down health care costs.

What Anexate did for Gerber, Gerber is trying to do for Roche. When he took over 12 years ago, Roche's financial structure was an anachronism in the fast-moving drug industry. Profits from Valium, the tranquilizer that had made Roche the world's No. 1 drugmaker, were sliding irreversibly. And Roche's new-product efforts had collapsed. Gerber set out to transform it into "a modern, well-managed company." And now, the plan is taking hold.

Gerber, 60, has groomed new management, revamped product development, modernized finances, and dumped money-losing businesses to focus on four key segments: drugs, medical diagnostics, vitamins, and flavors and fragrances. In pharmaceuticals, which earn some 70% of operating profits, the new-drug pipeline is flowing again, making Roche's U. S. unit, Hoffman-La Roche Inc., more formidable in the huge U. S. market. Last year, Roche's overall profits spurted 29%, to $553 million, on an 8% sales jump, to $6 billion. And its stock is near a 17-year high on Swiss exchanges.

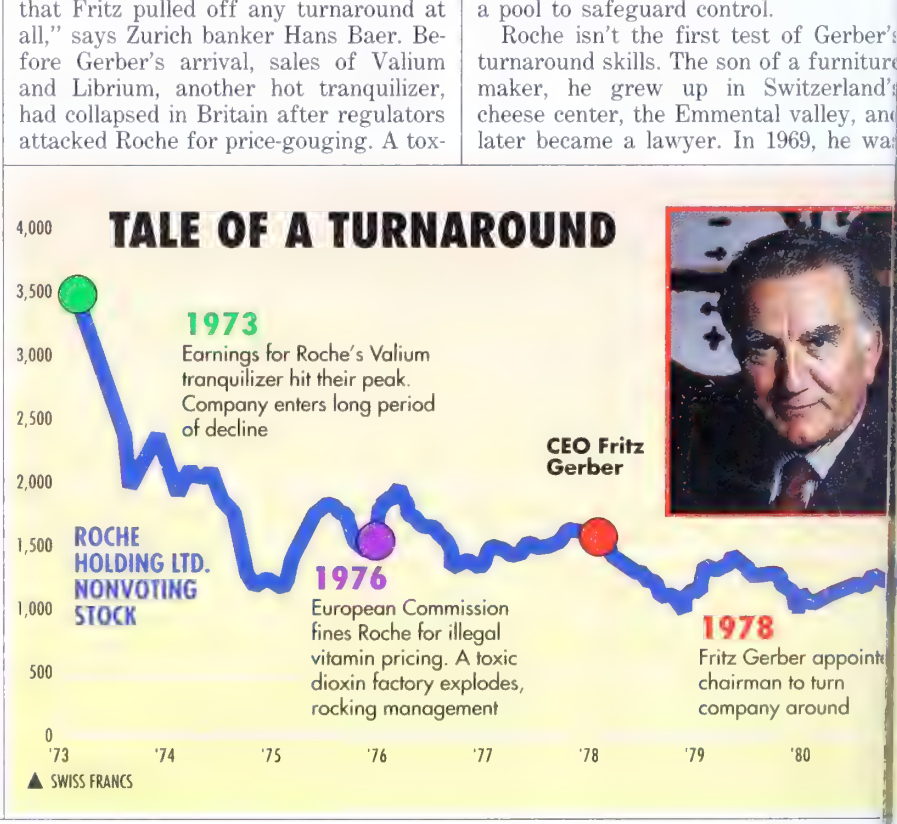
A BIG 'IF.' To complete its turnaround, the once-cautious company is becoming unusually bold. By September, U. S. regulators are expected to approve its purchase of 60% of biotech star Genentech Inc. for $2.1 billion. The hope is that the California company's genetic engineers will help vault Roche back among the world's top five drugmakers, from No. 14 today. "If Roche is nimble, 10 years from now it will look like a brilliant move," says James L. Vincent, president of Biogen Inc.

That's still a big "if." Gerber has to keep Roche's bureaucracy from smothering Genentech's entrepreneurial flame. And rivalry between Roche's two main research centers, in Basel and in Nutley, N. J., still delays products and hurts the payback from research and development. If a reorganization this fall fails to solve that problem, Roche's momentum could stall. "Roche is not yet a company with a golden future," says a consultant who knows the drugmaker well. In fact, while Gerber directed Roche's turnaround from his elegant Bauhaus-style headquarters in Basel, a spate of mergers created more formidable global rivals, such as Bristol-Myers Squibb Co. and SmithKline Beecham Corp. Without another drug such as Valium, Roche's returns may continue to lag: The 12% it earned on equity last year is well behind that of industry leaders.

Still, today's challenges seem small compared with those Gerber took on when the patriarch of Roche's controlling family, orchestra conductor Paul Sacher, hired him as CEO. "It's a feat that Fritz pulled off any turnaround at all," says Zurich banker Hans Baer. Before Gerber's arrival, sales of Valium and Librium, another hot tranquilizer, had collapsed in Britain after regulators attacked Roche for price-gouging. A toxic explosion in an Italian plant had showered the company with negative publicity. And evidence of Valium's addictive properties had begun to surface. As Valium's patents around the world expired, Roche's profits plunged, since the sedative accounted for 50% of drug sales. Roche's net margins slid to 3.7% by 1981 from 12% in 1973, as generics, which now have 60% of the tranquilizer business, grew quickly.

Just as Valium was fading, moreover, Roche lost its way in the lab. As it concentrated on finding another blockbuster, management let less-exciting candidates languish. From 1975 to 1985, Roche developed only three modestly successful drugs. By 1986, the stock had plunged 50% from its high of the early 1970s. That prompted California drugmaker ICN Pharmaceuticals Inc. to try a long-shot takeover, even though Sacher family heirs had placed their stock—rumored at about 60% of voting shares—in a pool to safeguard control.

Roche isn't the first test of Gerber's turnaround skills. The son of a furniture maker, he grew up in Switzerland's cheese center, the Emmental valley, and later became a lawyer. In 1969, he wa



tapped as chairman of Zurich Insurance Group, whose London reinsurance unit had run aground. He transformed it into the No. 2 underwriter in Europe—and remains its chairman. At Roche, Gerber found himself hobbled at first by an outdated accounting system that hid myriad problems. It was two years before a new one showed that some units had never made money. That led to sales of businesses with nearly $1 billion in revenue. In the final one, on Aug. 23, Roche sold its Maag agrichemicals group to Ciba-Geigy Ltd.

URGENT MISSION. But the top priority was healing the drug business, which now accounts for 45% of total revenues. In 1979, Gerber found Rocephin languishing in his labs. An otherwise hum antibiotic, it required only one injection a day, not the two that competitors did. Sensing its money-saving appeal to hospitals, Gerber rammed it through development, and this year, Rocephin will produce $800 million in revenue. Still, Gerber needed new products faster than his labs could produce them. So he turned to licensing and strategic alliances. A 1982 deal to co-market Zantac, the anti-ulcer drug from rival Glaxo Holdings PLC, caused an uproar. "I was most shot when I brought it home," he recalls. But since then, Roche has signed a slew of similar deals.

The key to reviving Roche's own drug development, Gerber decided, was new management. In a heretical move, he imported two key executives from neighboring Sandoz Ltd.: Armin Kessler, now chief operating officer, and Jürgen Drews, director of research and development. Drews's urgent mission: Revive R&D. Roche has a strong record in basic biomedical research (page 94). And it spends about $725 million annually, or 20% of drug sales, on R&D, about one-third more than major competitors. But Drews found too many compounds competing for attention, and it took too long to get drugs approved in multiple markets—five years for Rocephin, for instance. Competitors were coordinating clinical trials at subsidiaries worldwide to quickly secure multiple regulatory approvals. At Roche, by contrast, subsidiaries went their own ways.

Drews began his overhaul by focusing R&D on six of the most promising markets, including cardiovascular and infectious diseases. To end duplication, he assigned specialties to each of the R&D centers in Basel, Nutley, Kamakura, Japan, and Welwyn, England. He also created committees to set global priorities for drug development, hoping to coordinate clinical trials and regulatory approvals. Now, the number of drugs in the works is down from an unwieldy 90 in 1986 to about 40. And Roche is cutting its dependence on central nervous system drugs, including Valium. Those account for 32% of drug sales, down from 50% in 1980, as drugs for infections and and skin ailments have taken root.

There are still no blockbusters yet, and some products, held up for years in development limbo, are getting to market late. One of those, Inhibace, an antihypertension drug, now has perhaps seven competitors. But Roche still may claw its way back. Its seasoned sales force made a star of latecomer Rocephin, and BNP Securities analyst Alastair Kilgour thinks the sales force can work wonders again. He expects Roche's drug sales to outperform industry growth of 10% annually through 1994, adding: "It'll be a great test of marketing muscle."

In short, a judgment on Drews's new regimen will have to await the results of a handful of projects still in the early stages. An anti-obesity compound called THL, for tetrahydrolipstatin, shows promise for blocking the absorption of dietary fat in humans. And a leading U. S. cardiovascular expert considers recent Roche advances in renin-inhibitors, a new class of antihypertensives, which work by blocking the kidney hormone that helps raise blood pressure, as "potentially cutting-edge."

PALPABLE CONFLICT. Drews's other priority is to settle the tug-of-war between Basel and Nutley. Set up during World War II as a safe haven for research, Nutley won equal status—and unique autonomy—when it developed Valium in the 1950s. "Strong local biases are still in the way," says Drews, when it comes to making development decisions. In the mid-1980s, for instance, both Basel and Nutley discovered compounds called calcium antagonists, which lower blood pressure. But rivalry for corporate funds to develop them was so fierce that no consensus was reached. Facing stiff outside competition, both labs dropped their efforts last year after spending more than $40 million. Such confrontations kept Roche from setting company-wide drug priorities until last September—after four years of dickering.

Executives at both labs pass off tensions as natural rivalry. But the conflict is palpable. Sources say tempers flared after Basel dealt Nutley out of negotiations for Genentech—over some U. S. managers' objections that the deal might threaten Nutley's role. Nutley's recent productivity hasn't helped: Of Roche's 13 leading compounds, it came up with only

ROCHE'S NEW DRUGS

R&D Chief Jürgen Drews

ROFERON-A
For some cancers
Launched 1986

INHIBACE
Antihypertensive
Launched 1990

AURORIX
Antidepressive
Launched 1990

MEGALONE
Antibiotic
Preparing filings

G-CSF
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In registration

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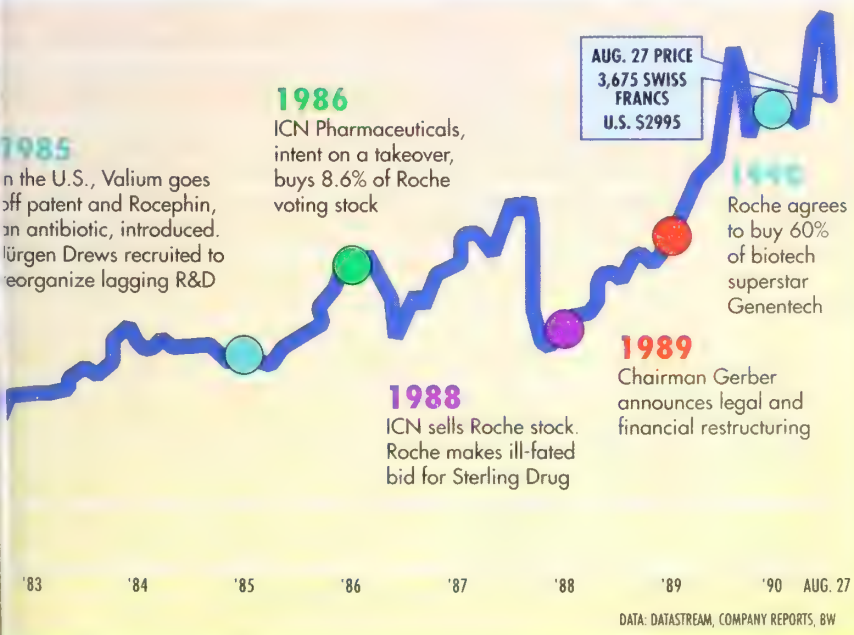
DATA: COMPANY REPORTS



DATA: DATASTREAM, COMPANY REPORTS, BW

two, compared with six for Basel.

Indeed, the uncertainties of his own R&D made Gerber more willing to gamble on Genentech. It has the technology—and track record—for quick development, and drugmakers are desperate to harness biotechnology. Roche developed some early products such as an interferon called Roferon-A. But the company's ultimate goal—to cure cancer—has proved elusive.

Now, the payoff looks more promising from drugs that treat auto-immune and cardiovascular ailments. Genentech is selling $400 million in products now and has a half-dozen more in development. And long term, Roche hopes Genentech's gene-splicing expertise will help identify and replicate structures such as receptors, the lock-and-key mechanism on the surface of cells that allows drugs to enter. Then, Roche chemists can tailor molecules to fit targeted receptors and can create more effective drugs faster.

The trick will be to keep eager Roche researchers from overrunning Genentech's South San Francisco labs and driving away its top talent. Gerber insists he will preserve Genentech's entrepreneurial culture, starting with its stock-option program and R&D independence. So far, he has persuaded Genentech President G. Kirk Raab. "Our scientists are nonconformists who don't fit into big corporate cultures," Raab says. "Roche understands that very well." Still, when the deal closes, Genentech employees can exercise 50% of their stock options. Once they've done that, "you're going to see a lot of big names leave," says a rival biotech executive who has received Genentech resumés.

Genentech isn't Roche's only risky hedge. Last year, it licensed Cetus Corp.'s much-heralded Polymerase Chain Reaction technology. By making millions of copies of genetic sequences, PCR has the potential to test for diseases faster and more accurately than conventional technologies. Roche is pouring roughly $50 million a year into getting the technology to market—and hoping that PCR will give its $1.1 billion medical diagnostics business a boost. The $500 million U.S. clinical services unit, which sells test kits and automated testing systems to labs and hospitals, has been plagued by lagging product development and has never made an annual net profit.

Yet this briskly advancing market should be one of Roche's best hopes for future growth—if it can pull off PCR. COO Kessler insists that it is becoming cheaper, more accurate, and easy to use. But with competing techniques making fast advances, Roche has perhaps three

THE BASEL INSTITUTE: WHERE ROCHE'S SCIENTISTS RUN FREE

"It's the perfect place to do science," declares Klaus Karjalainen. With his long hair, goatee, and mustache, the 38-year-old doctor looks more beatnik than scientist. But he's a member of the elite corps of Roche Holding Ltd.'s Basel Institute for Immunology, and he has a right to feel fortunate. For six years, the institute has given him the tools and time to pursue his research, with no interference. Now, he's closing in on a four-year goal: to crystallize certain molecules on disease-fighting cells, called T- and B-cell lymphocytes. His work could uncover how these cells work, and thus contribute to a better understanding of the body's immune system.

Besides its own four R&D labs, Roche spends $45 million a year on two independent centers for basic research: the Basel Institute and the Roche Institute of Molecular Biology in Nutley, N.J. Nutley has a traditional hierarchy and pushes collaboration with corporate R&D departments. But there's no place quite like Basel. Founded in 1969, it counts three Nobel prize winners as alumni. Its annual reports read like textbooks in immunology, and no wonder. The lab is an international magnet for immunologists who go on to prestigious academic slots or industry.

NEW BLOOD. Despite its reliance on Roche, the institute jealously guards its independence. Founding director Niels Kaj Jerne, a Nobelist, didn't even want the company's name on the door. Says Fritz Georg Melchers, who now runs the institute: "It takes a different mind to see science grow than to see money grow. It's my sturdy insistence that the two be separate."

From the start, Jerne and Melchers, also a founding member, outlawed hierarchies and departments and decided

RESEARCHERS ARE FIERCELY MOTIVATED

to stay small. Today, 55 scientists from 15 countries work in the labs. But to ensure a constant and fresh supply of talent, only seven are permanent. The others—31 years old on average—stay for up to five years. "The secret to this paradise is that it's only there for a certain time," Melchers says.

He handpicks members, selecting one of every 15 applicants. Scientists work alone on projects they have conceived. With only a short time to prove themselves, members are fiercely motivated. But since they don't compete for resources, ad hoc cooperation flourishes. Indeed, part of the institute's allure is that it isn't all science. Members work off high spirits by staging their own operas for special occasions. When Susumu Tonegawa won the Nobel prize in 1987 for work done in Basel, they honored him with "Prince Susumuli," an operetta spliced together from their favorite scores. They added their own libretto to create scenes of his life—a sort of operatic roast.

PRESTIGE. This unorthodox style produces stellar science. In 1984, Georges Kohler won the Nobel prize for producing cultured hybridomas. That work, portions of which were done at the institute, made possible the mass production of biotech drugs. Tonegawa won his prize for uncovering in the 1970s how B cells, which everyone has, mount the "right" immune response against invaders to fight disease. In April, Harold Von Boehmer won a prestigious Swiss medical prize for discovering how the body distinguishes between foreign invaders and its own cells.

What does Roche get for its money? Prestige and access to top research talent, for one. But even Roche Chairman Fritz Gerber, who heartily endorses the institute, agrees that it's difficult to measure returns: "From a business point, we should probably discontinue it," he says. Luckily, the business of this lab isn't just business.

By Emily T. Smith in New York and Jonathan B. Levine in Basel

years to get to market first with test kits, which hold the key to profits. And t will have to keep a close eye on partner Cetus, whose recent financial woes have put its independence in doubt.

In the meantime, better coordination n hastening drugs and diagnostics to narket is Gerber's top concern. This fall, e will launch a reorganization to make ach division more nimble. "If we don't erfect the global effort, we're chasing

Even after the Genentech leal, Roche will have $5 billion in cash, and analysts figure it has $8 billion more

moving target," he says. Eventually, l business units, which now report to eir respective country heads, will be ntrolled by managers who will coordiate activities worldwide. Insiders exect Drews to centralize authority furer by setting product priorities—and push more development responsibility wn to leaders of teams that actually rk on drugs. That, he hopes, will circmvent tensions along the Basel-Nutley is. It will also subvert power bases at have shaped Roche's culture. But so it. "Our mission is to pick out the arls—regardless of where they come m," says Albert E. Fischli, Basel's ad of metabolic disease research.

WERHOUSE? Family control, a formible balance sheet, and Roche's vitans and fragrances businesses—Nos. 1 d 2 respectively in world markets—e Gerber the security to see his makeer through. Even after the Genentech l, Roche will have a cash hoard of $5 ion. And analysts figure that Roche an additional $8 billion in hidden reves such as land. That's enough to d another run at a U.S. over-the-nter drugmaker. Roche lost a hostile billion bid for Sterling Drug Inc. to stman Kodak Co. in 1988, and Gerber l wants to lessen his dependence on scription drugs. "Our whole scheme o buy freedom of action," says Chief ancial Officer Henri B. Meier.

o that end, Roche will switch from gal Swiss to international accounting ndards this year, a possible prelude listing its stock on international exnges. Then, says one Zurich analyst, e world will recognize Roche as a erhouse." In financial terms, maybe. the recovery won't be complete until z Gerber can prove that Roche's depment prowess of the 1960s has n revived in the 1990s.

Jonathan B. Levine in Basel, with Emi Smith in Nutley and bureau reports

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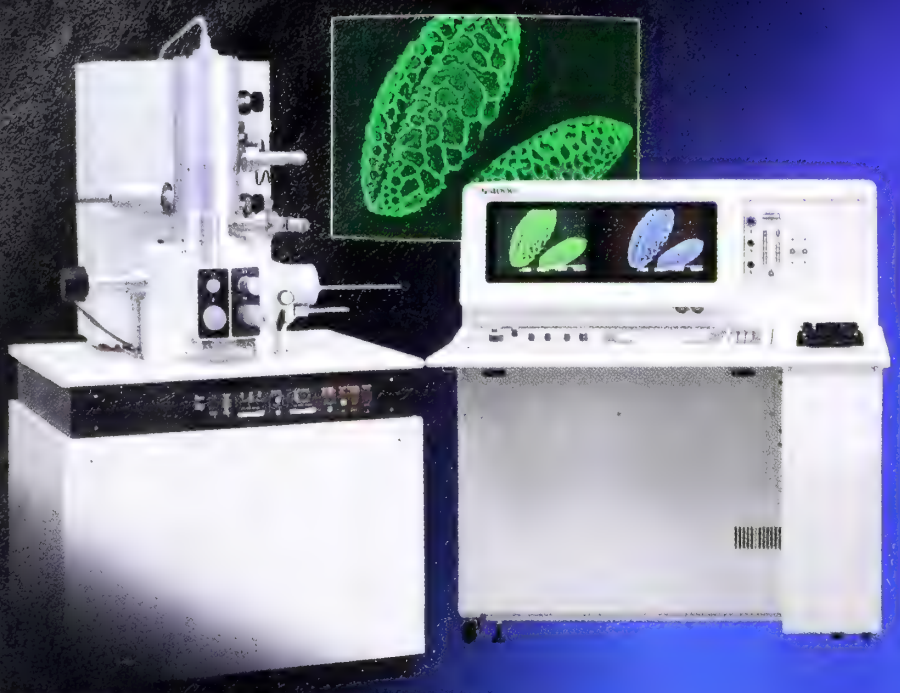

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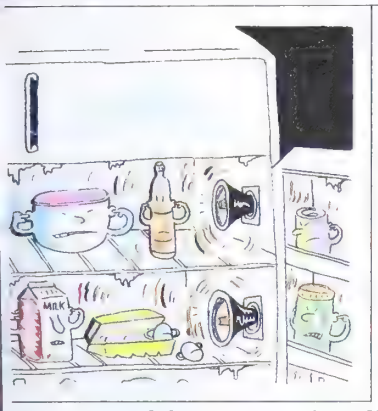
EDITED BY ROBERT BUDERI

MAKING REFRIGERATORS IUM—WITH SOUND



In the search to replace ozone-eating chlorofluorocarbons in refrigerators, researchers at the U. S. Naval Postgraduate School in Monterey, Calif., are employing a new weapon: sound. Their "acoustic refrigerator" still works on the principle that a gas heats when it is compressed and cools when it expands. But rather than using a mechanical mpressor and freon gas, as in ordinary refrigerators, physi- st Steven L. Garrett and colleagues use 160-decibel sound aves from a loudspeaker to compress and expand a mixture helium and xenon or helium and argon. Unlike freon, these ert gases don't threaten the environment.

The sound waves resonate gas molecules so they compress ile traveling in one direction through narrow channels in a amber and expand when moving the other way. Heat is thus nsferred to one end of the chamber. The hot air is vented, th the cool air remaining to do its job. Plastic walls provide undproofing. The first system will fly on the space shuttle xt year. But Garrett envisions the technique, using four-inch eakers, in home air conditioners and refrigerators. And he is ploring the idea of producing a commercial product.

HAT TO DO HEN DIAMONDS WON'T DO

As the world's hardest substance, diamonds are widely used in film form as abrasive and wear-resistant coatings industrial tools. But diamonds aren't always industry's st friend. Their rough surfaces are unsuitable for some ctronics uses. And they react with iron and iron alloys to m iron carbides, which can degrade tool quality. Now, Gen- l Motors Corp. Research Laboratories has developed a new ocess that produces a possible alternative to diamond films. The process uses a technique known as laser ablation to ow, or build up, thin films of cubic boron nitride on silicon. er diamonds, cubic boron nitride is the hardest material own. GM scientists predict that because their crystalline uctures are similar to diamonds', the films will mimic dia- nd properties of electrical insulation and optical transparen- The films could also lead to new high-temperature electron- levices, since their diamond-like thermal conductivity lets m withstand far more heat than standard silicon chips. GM sicist Jeffrey A. Sell expects a patent within nine months.

KING THE DRUDGERY T OF CHIPMAKING

Making microchips is complex and involves some very toxic chemicals. First, silicon wafers are coated with eral ultrathin films, including a light-sensitive layer known photoresist. Shining light onto the photoresist through a gative," or mask, turns the film soluble where the circuit's lines will be. These soluble lines are washed away, exposing the silicon beneath so it can be etched with acid. Finally, the etched lines are filled with metal atoms.

But a radically simpler method may be coming. It all started when Bruce M. Novak, a University of California at Berkeley chemist, tried to develop a better photoresist. Shining light on a certain polymer changed it from an insulator to a conductor—meaning that circuits could be printed directly on the photoresist. Novak has designed a few simple circuits to show chipmakers that "polychips" work. Moreover, inexpensive printed-polymer grids seem perfect for blanketing the back of wall-size, high-definition computer and TV screens with the complex circuitry they need to produce clear pictures.

THESE COMPUTER 'PRINTERS' SPIT OUT MOLDS

First there was CAD, or computer-aided design. It used a computer to generate the detailed drawings needed to turn engineering specs into usable designs. Almost overnight, CAD eliminated drafting in the manufacturing sector. Now, Massachusetts Institute of Technology researchers hope to go CAD one better—with a method of computer-generating the molds used to manufacture metal parts for autos or aircraft engines.

Traditionally, molds are carved from wax, dipped in a ceramic mud, and left to harden. Later, the wax is melted from the shell. MIT researchers say that their "three-dimensional printing" process cuts such mold-making techniques, which can take up to six months, down to a few days. A computer-controlled nozzle applies a liquid adhesive spray, layer by thin layer, until a ceramic mold up to three inches per side is formed. And unlike other mold-making techniques that employ plastics or resins, the MIT process produces a mold that directly accepts molten metals. Besides working to produce more detailed molds, the team is attempting to mold finished parts by spraying metal powders as well as ceramics. If it is successful, mold printing might just do for manufacturers what CAD did for designers.

THEY JUST DON'T MAKE COAL LIKE THEY USED TO

In the distant future, a good coal mine may be hard to find. The conditions of 300 million years ago that created today's vast coal reserves don't exist now. So, few new coal formations are developing, says Jennifer M. Robinson, research associate at Pennsylvania State University's Earth System Science Center.

Coal is created when organic materials in plants, called lignins, are buried in a wet climate. The continents' ancient, moist forests played host to giant ancestors of club mosses and ferns, which were at least 40% lignin. Coal formed because there were no bacteria or fungi to break down the lignin. By contrast, says Robinson, modern plants grow in drier climes and contain about 20% lignin. And plenty of fungi are around to decompose them when they die. So don't count on coal-fired power for, say, another million years.

FROM OWNING KING BROADCASTING TO SAVING KING SALMON

Two sisters put a family media empire on the block, earmarking the proceeds for the environment

Harriett Stimson Bullitt may be 65, but go hiking or cross-country skiing with her and she'll probably outpace you. Not long ago, she competed in a race that involved swimming across an ice-cold lake, kayaking 7 miles, cycling 22 miles, and then running 9 miles. And if you ever meet her sister, Priscilla "Patsy" Bullitt Collins, 69, don't be fooled into thinking she's simply a proper, quiet, rich lady. Get to know her, and she'll tell you all about her trips to El Salvador and Nicaragua during the turbulent mid-1980s, Cuba during the Radio Martí dispute, Hiroshima just after World War II, and around the Soviet Union by car in the mid-1960s.

These strong-minded sisters have never made headlines before, but they've long been powerful figures behind the news: They control 70% of King Broadcasting Co., which runs the oldest TV station in Seattle, KING-TV. Founded in 1946 by their mother, Dorothy S. Bullitt, the company also owns five other TV stations, six radio stations, and 13 cable systems. The sisters have controlled the private company since their mother's death at 97 last year. The remaining 30% is owned mainly by employees and former employees.

On Aug. 21, the sisters announced that they plan to sell King Broadcasting and donate most of the proceeds to the Bullitt Foundation Inc. This 38-year-old trust will now be devoted to preserving the mountains, forests, beaches, and streams of the Pacific Northwest. If shareholders get the $650 million to $750 million the sisters are hoping for, the foundation would pocket around $100 million right away. Bullitt and Collins say the foundation will get most of the rest of their share after they die.

MOURNFUL EULOGIES. News of the sale took Seattle by storm. For days, the local papers were filled with both praise for the planned philanthropy and mournful eulogies about the loss of Bullitt leadership at KING-TV, an NBC Inc. affiliate that pioneered investigative documentaries and sharp news commentaries. A reporter for rival KIRO-TV suggested at a news conference that the sisters might serve environmental causes better by keeping the station.

The sisters have always shown more interest in preserving the Pacific Northwest's ecosystems and preventing world war than in the everyday aspects of running a broadcasting business. Both have been active board members since 1972. Collins, chairman of the board, has a corner office on the top floor of the King building in downtown Seattle. But she leaves most management decisions to President Steven A. Clifford.

By selling the company now, the sisters figure they can choose a buyer that will offer the highest price and also care about its employees and the community. "There are certainly people we would not want to sell it to," Harriet Bullitt told reporters at a news conference. Dillon, Read & Co. and Sterling Payot Co. are the advisers.

Passing King on to the next generation didn't appear to be an option. Collins has three sons: one a bicycle repairman, one who works at a school for the blind, the third a student. Bullitt's son is a lot, and her daughter, who has a PhD in psychology, is a full-time mother. None has shown an interest in running the broadcasting business, says Collins. She and her sister want to avoid the squabbling that can erupt when children take over a family business. They saw this happen to their good friends the Binghams, former owners of the *Louisville Courier-Journal*. Says Patsy Collins: "Don't ever try to fit your children into something just to suit your own egoneeds."

The Bullitt family first made its mo

KING'S TWO QUEENS: COLLINS AND BULLITT WANT TO KEEP THE NORTHWEST GREEN

KING BROADCASTING: WHAT'S FOR SALE

TV STATIONS

KING Seattle
KGW Portland, Ore.
KREM Spokane, Wash.
KTVB Boise, Idaho
K38AS Twin Falls, Idaho
KHNL Honolulu

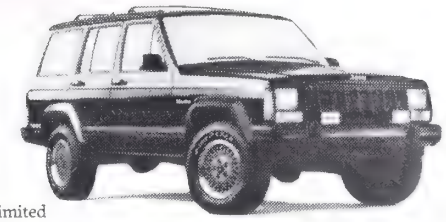
RADIO

KING-FM Seattle
KING-AM Seattle
KINK-FM Portland, Ore.
KGW-AM Portland, Ore.
KSFO-AM San Francisco
KYA-FM San Francisco

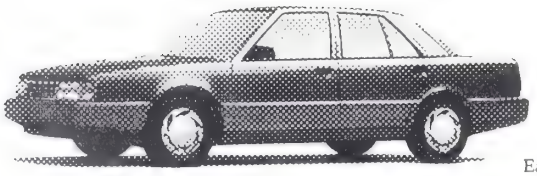
CABLE

13 King Videocable systems with 202,000 subscribers in the West and Midwest

DATA: COMPANY REPORTS



Jeep Cherokee Limited



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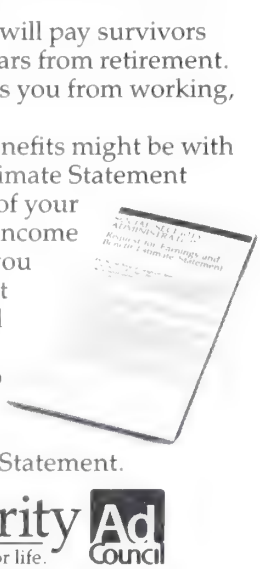

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Ad Council

ey in the early decades of this century i lumber and real estate. As children i the 1920s and 1930s, the sisters and thei brother, Stimson, swam in Puget Sound went camping and boating, rode horses and spent summers at a lodge in th mountains. Stimson, now 71, ran th broadcasting business during the 1960s In the early 1970s, he took over the fam ily's commercial real estate developmen business, leaving King Broadcasting t his sisters.

TUGBOAT SKIPPER. Harriet Bullitt ha what Dale Jones, formerly head of th Seattle office of Friends of the Earth calls "a compassionate love for the out doors." She enjoys kayaking, horseback riding, flamenco dancing, and piloting her own tugboat. A biology graduate o the University of Washington, sh founded a nonprofit natural science magazine in 1966 and developed it into well-regarded environmental magazine *Pacific Northwest*. She sold it in 1988.

Her sister, Collins, has focused fa more on international issues, such a heading the Goodwill Games' cultura exchange program this summer. Sh also devoted three years to restoring th old family mansion on Seattle's Firs Hill, which she rents out for parties She, too, worries about fast growth an its effects. After studying Italian a Vassar College, she spent 18 years i Southern California, where her husban worked as a real estate appraiser. Sh saw Orange County's citrus grove paved over and replaced by subdivision "I can see a rerun of Southern Califo nia here," she says. "It scares me."

Cashing in on their inheritance may b tougher than they think. The credi crunch, federal restrictions on TV statio ownership, increased competition, an potentially tougher regulation for cab operators have softened the market fo broadcasting properties. Some industr experts think shareholders will wind u with at most $500 million. Although i might be easier to break up King an sell it in parts, they don't want to.

Once the sale is complete, the fun b gins. The sisters' interests range fro energy conservation and recycling t protecting wetlands and preserving wi salmon habitat. Their philosophy is pr vention rather than cleanup. That mea money for education and acquisitio such as the foundation's mid-1970s pu chase of eastern Washington's Northup Canyon. "We want to preserve the sp kle of water and the smell of freshn s of the air and earth and forest," s:s Harriet Bullitt. They've already receiv a flood of letters from groups wo would like a piece of their money. If ou buyers were as easy to come by.

By Dori Jones Yang in Seatt

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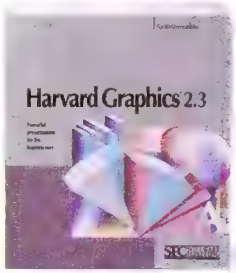

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EDITED BY AMY DUNKIN

Investing

HUNTING HIGH RATES ACROSS THE HIGH SEAS

With foreign money-market rates towering above those in the U. S.—and with the dollar weakening—investors are looking abroad for top yields. A growing number of global funds makes it easy to invest in these markets by putting assets in high-quality, short-term foreign government bonds and certificates of deposit (CDs). For a more direct play on a slumping dollar, there are also global currency funds that limit their investing to money-market securities denominated in foreign currencies.

Short-term rates in Australia, Canada, New Zealand, and Britain start at 13%, compared with around 8% in the U. S. But currency fluctuations can chip away at principal. And the heavy sales charges of some funds mean that you may need short-term rates and inflation to remain steady for a long time to get high returns. Then again, if the dollar continues to fall against other currencies in the fund, that could offset the charges.

MANY PLAYERS. After the Alliance Short-Term Multi-Market Trust ballooned from $325 million in 1989 to $2.7 billion in 1990, other players set up bond funds. Pilgrim launched one this July, and Kemper plans to introduce one in October. Shearson came out with a version in May; Merrill Lynch followed in early August. Minimum investments range from $250 to $5,000. Services include exchange privileges between funds and systematic withdrawals from accounts. Alliance allows you to write checks of $500 or more.

To compensate for the currency risk, managers aim for a yield of at least two percentage points above U. S. short-term money-market instruments, which now yield about 8%. The funds use complicated hedging strategies to protect against currency swings, but portfolio managers admit that such techniques aren't fail-safe. Many funds also try to limit the downside by investing 25% of assets in the U. S.

These short-term bond funds can offer attractive returns. Alliance's total return for the last eight months was 8.89%, and the share price has gone up 2.8% since the fund's inception. But not all of the funds perform as well. The AMA Investment Advisers' comparatively tiny ($5 million) no-load fund has a year-to-date total return of 6.27%.

Many of the funds come with sales charges of 3%, and operating costs run about 1.15%. For some, you can opt to pay fees on the back-end. In Merrill's case, that means you pay a sales charge of only half a percentage point. But there's a declining redemption fee that slides from 3% the first year to 1% the third year.

The other breed of funds invests in foreign money-market instruments for the traditional 120 days or less. Most don't have loads, have low operating expenses, and require either a $2,500 or $5,000 investment. They also use hedging strategies.

Huntington Advisers' International Cash Portfolio's High Income Currency Fund invests its $25.3 million in

ign CDs, government ills, and corporate pa- er. The fund stresses nterest income over urrency appreciation, nd preservation of capi- al is a secondary con- deration. But since the nd began about a year go, the share price has sen 9%. Investments e in three to five of ie highest-yielding ma- r currencies as deter- ined at the start of the ear: Australia, Canada, ew Zealand, the U. K., d the U. S.

Another fund that invests a basket of currencies is earson's Managed Curren- Portfolio Limited Partner- ip, which has a year-to-date tal return of 8.74%. If it ren't designated as an LP, a Securities & Exchange Commission rule would limit to 30% the portion of profits that could come from currency hedging in any three-month period, says Seth Strickland, president of Shearson Lehman Brothers Strategy Advisors.

Fidelity Investments' foreign-currency portfolios are single-currency funds that invest in the Deutschemark, pound, or yen. The pound portfolio has been the star performer, with a year-to-date total return of 30.4%. Since April, the dollar has fallen close to 15% against the pound.

Along the same lines are Shearson's Global Currencies Limited Partnerships. Investors can speculate in Canadian dollars, Deutschemarks, pounds, or yen. In Shearson's stable of funds, the leader is the pound portfolio, with a total return of 29.4% as of Aug. 23.

Even conservative international investments can be risky business. But for right now, the best returns may come from outside U. S. borders. *Suzanne Woolley*

SOME SHORT-TERM FUNDS THAT INVEST ABROAD

	Average maturity	Total return*
ALLIANCE SHORT-TERM MULTI-MARKET TRUST A	1 YEAR	8.89%
AMA GLOBAL SHORT-TERM	1.9 YEARS	6.27
FIDELITY STERLING PERFORMANCE PORTFOLIO L.P.	UP TO 90 DAYS	30.43
INTERNATIONAL CASH PORTFOLIO/HIGH INCOME CURRENCY	32 DAYS	16.60
SHEARSON CANADIAN DOLLAR PERFORMANCE PORTFOLIO L.P.	90-120 DAYS	9.06
MONEY MARKET FUND AVERAGE	45 DAYS	7.66

*Price change and yield from Jan. 1, 1990, through Aug. 24

DATA: MORNINGSTAR INC.; IBC/DONOGHUE'S MONEY FUND REPORT; BW

Security

BAEDEKER FOR TRAVEL A TENSE WORLD

The Middle East crisis has once again heightened concerns about veling overseas safely. But business or a long-sched- d vacation mandates a trip oad, it helps to know the lines have tightened securi- measures another notch. Comforting, perhaps—but an also mean longer lines security checkpoints. And h increased chances of ter- ist attacks, it's best to min- ze the time you spend in airport's vulnerable public ces. That means arriving lier than usual, to beat the wds into the safer areas t the X-ray machines and tronic scanners. "When say check in two hours ly, we mean it," says a Am spokesperson.

T US KNOW.' To speed your y past the checkpoints, p any carry-on electronic r together in one bag. If 're toting a camera and op computer, for instance, urity staff may ask you to monstrate one of them. But our bag holds one item your spouse's has the oth- both of you may be stopped to prove they work. And don't pack the batteries in your checked luggage to lighten your carry-on load: You'll be stuck if asked to turn on the equipment.

You'll fly easier knowing you've taken precautions. Before heading abroad, phone the State Dept.'s public-affairs office (202 647-6575) to get local phone numbers for U. S. embassies or consulates in the cities on your itinerary. Then, on landing, you can quickly call, say, 126-5470 in Ankara or 355-7371 in Cairo for any new travel advisories. "It's a good idea to let us know where you'll be staying," says an official.

Also worth a call before departure: the State Dept.'s Citizens Emergency Center (202 647-5225) for recorded tips on visa requirements, handling an arrest or a medical problem, and trouble spots. Currently, along with six Persian Gulf countries, these include Turkey, Northern Ireland, and even Spain, where there are railroad bomb threats.

Wherever you go, attempt to blend in with the crowd. Sure giveaways: colorful slacks or bright blazers. Particularly in Islamic countries, females should forgo shorts or low necklines, and men shouldn't be seen with *Playboy*-type magazines. Try to speak in low tones, and don't carry a telltale *USA Today*.

AFFABLE STRANGERS. If tensions mount and you need to leave a place quickly, discovering that a thief has made off with your passport or tickets could be disastrous. So you'll want to be doubly on guard. Leave them in the hotel safe or carry them in a pouch under your clothing.

Dan McKinnon, former head of the old Civil Aeronautics Board, offers plenty of useful tips in *Everything You Need to Know Before You're Hijacked*. (It's $5 from House of Hits, Bldg. 75, N. Hangar Rd., JFK International, Jamaica, N. Y. 11430.) For example, he advises each person to carry his or her own travel documents. That way, if one person is robbed, not everything is lost. And keep your hand on your wallet if a knot of kids surround you shouting and waving or if an affable couple insists on cleaning off the mustard they surreptitiously squirted on your coat. In any big city, these are apt to be distractions staged by pickpockets. *Don Dunn*

STEPPED-UP AIRPORT SECURITY CAN MEAN DELAYS AT CHECKPOINTS

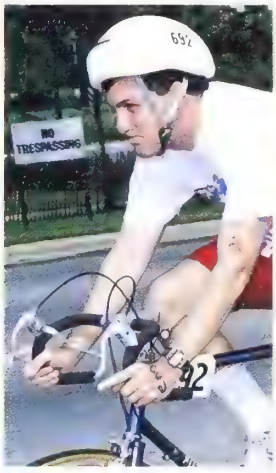
Fitness

TRIATHLONS—FOR PART-TIME ATHLETES

When most people hear the word triathlon, they think of a sweaty face twisted in pain. That's not surprising. The best-known race of this genre is the Ironman, Hawaii's grueling endurance test that includes a 2.4-mile swim, a 112-mile bike race, and a 26.2-mile run.

But not all triathlons require such extraordinary stamina. Indeed, over the past several years, shorter triathlons have witnessed a popularity boom. The most common version has been dubbed the Tinman. Participants swim 1 mile, bike 25 miles, and run 6.2 miles.

LESS ABUSE. On Aug. 19, I was 1 of 4,000 people who entered the *Chicago Sun-Times* Triathlon. As a former marathoner, I can testify that the three-part events abuse the body less than marathons. While it can take three months to recover from a marathon, a week is enough to recoup from a triathlon.



THE TINMAN IN CHICAGO
Along with 4,000 other triathletes, BW's Mark Lewyn swam 1 mile, biked 25 miles, ran 6.2 miles—and spent just a week recuperating

Although this was my third Tinman event, my training regimen was haphazard at best. I ran about six miles three times a week and swam and biked only occasionally. My finishing time—3 hours and 31 minutes—reflected that fact. A blind man and a fellow with one leg both beat me. The average was just under three hours.

To enter a meet, you'll need a swimsuit, goggles, a multispeed bike, a crash helmet, biking pants cushioned in the seat, and good running shoes. Rubber bodysuits can improve flotation in the water, and spokeless bike wheels help cut wind resistance. Drink plenty of liquids to boost your energy level.

As an orientation to triathloning, pick up *Triathlete* magazine (215 821-6864; one year, $23.95). The Multi-Sport Info Line (619 221-5555) gives race dates and course data.

As soon as you complete a race, call the National Race Information Network (90 786-7555). Just tap your race number into the phone's keypad, and you'll learn your finishing time, overall race standing, and how you placed in your sex and age group.

When it's all over, you'll take home a T-shirt, sore muscles, and a memory that'll outlast them all. *Mark Lewyn*

Smart Money

A FAST-FOOD INVESTMENT THAT YIELDS A TASTY 10%

Fast-food restaurants, those ubiquitous landmarks of American culture, offer a relatively safe investment, with returns as predictable as the fare. But you don't have to buy a franchise. Instead, you purchase shares in a limited partnership that owns the underlying real estate.

The two syndicators that deal exclusively in fast-food property have been posting returns of about 10%. (Ten-year Treasury notes yield just under 9%.) The largest is the Scottsdale (Ariz.) Franchise Finance Corp. of America, which has sunk $900 million since 1980 into 1,250 outlets in 47 states. Orlando's CNL Investment began syndicating in 1986, raising $185 million to buy 250 restaurants in 36 states.

SURE THING. The minimum you can invest in a Franchise Finance partnership is $5,000; for CNL, it's $2,500. The seven funds of Franchise Finance (800 528-1179) are fully subscribed, but investments can be bought on the secondary market through securities brokers such as Shearson at 80¢ to 90¢ on the dollar. CNL (800 522-3863) is now soliciting money for its eighth fund.

Fast food's allure is that it's recession-proof. Whatever their economic condition, Americans have a healthy appetite for hamburgers, french fries, and chicken from inexpensive drive-in eateries. "In bad times, people drop down from the higher-priced restaurants," says Morton Fleischer, CEO of Franchise Finance.

Other real estate partnerships pay you off in 7 to 10 years when the property is sold. But this investment gives a steady income stream funded by tenants,

> These partnerships own the land a restaurant is built on

the restaurant operators who pay rent and a portion of the sales to the partnership.

Real estate partnerships got a bad name following the 1986 tax reform, which ended their tax breaks and plunged several into financial trouble. But the problems mostly affected those partnerships invested heavily in office buildings, an overbuilt sector with a shortage of tenants.

Fast-food real estate does have a downside. If a restaurant goes bust, the building can't be rerented or sold to anyone but another fast-food operator. Hamburger joints have special layouts, plumbing, and electrical work which makes a transformation into carpet stores or dry cleaners almost impossible. The good news is that the failure rate is very low.

The main reason there aren't more fast-food partnerships is that this is a mature industry. Its 15% yearly growth rate of the past two decades has slackened to about 3%. The investments are like a quarter-pounder with cheese: not flashy, but solid. *Larry Light*

Introducing the laser printer to buy if price is the first thing you look at,

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	The New IBM LaserPrinter E	HP LaserJet IIP
Speed	✓ up to 5 ppm	up to 4 ppm
Speed upgrade option	✓ up to 10 ppm	No
Adobe PostScript option	Yes	Yes
Printer emulation	✓ IBM, HP PCL	HP PCL
Std. plotter emulation	✓ Yes	No
Font card slots	✓ 2	1
Std. input paper tray capacity	✓ 200	50
Std. output paper tray capacity	✓ 100	50
Opt. sec. input paper tray capacity	✓ 500	250
Opt. envelope tray capacity	✓ 75	20
List price*	✓ $1495	$1495

*Dealer prices will vary

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History

WHERE THE GOLDEN DOOR SWUNG OPEN

For the past 36 years, a grandiose building on Ellis Island in New York Harbor has stood empty and crumbling, echoing with the ghosts of 12 million immigrants who passed through it on the way to a new life in America. But on Sept. 10, real-life throngs will once again fill its halls. After a much-publicized, eight-year, $156 million renovation, the brick-and-limestone landmark structure will at last reopen to the public as the National Museum of Immigration.

The project was overseen by the National Park Service and funded through a private campaign led by Chrysler's Lee Iacocca. More than $20 million came from people who sent in $100 or more to have their names engraved on an outdoor Wall of Honor. Application forms are still available by calling 212 883-1986.

GRAFFITI PATCHES. A visit to Ellis Island begins at ferry docks in Battery Park at the southern tip of Manhattan or at Liberty State Park in Jersey City. The round-trip fare, including a stop at the Statue of Liberty, is $6 for adults and $3 for children aged 3 to 12; for sailing times, call 212 269-5755. Entry to the museum itself is free.

Boats dock at the main entrance, where a new steel, glass, and granite canopy stands in the footprint of the original corrugated-iron overhang that was torn down in the 1930s. Like other parts of the building, this contemporary structure is an interpretation of the historical one and not an exact restoration à la Colonial Williamsburg in Virginia.

Once inside, visitors can see the rooms where hordes of people checked their baggage and bought railroad tickets. They can then climb a modern-day rendering of a staircase, at the top of which the notorious "60-second medical" was performed. Doctors and nurses would whisk away anyone who seemed lame or short of breath—possible signs of heart trouble or tuberculosis. Those who failed a quick physical exam might be denied entry.

The staircase leads to the magnificent vaulted-ceiling registry hall, left bare except for some original benches, an inspector's desk, and two American flags. A dormitory with triple-decker bunks, inquiry rooms, and administrative offices have also been restored, and original patches of multilingual graffiti remain exposed on some walls.

"Treasures from Home" is an exhibit of personal property brought by immigrants from their native lands. Oth displays highlight the cont butions of ethnic groups U. S. language and cultu and even cover the sla trade, a form of immigrati that predated Ellis Island.

Designed to be accessible the handicapped, the muse has two theaters and an or history center, where you hear recordings of im grants telling their stories. computerized genealogy c ter for calling up names people who landed on Ellis land is slated for complet in 1992, the island's centenn year. *Amy Dun*

ELLIS ISLAND *Highlights of the National Museum of Immigration in New York harbor include the registry hall, where passengers were examined upon arrival, and a 'Treasures from Home' display, including clothing of the era*

Worth Noting

■ **FILING FORM.** The IRS package for 1990 tax returns will include a new form: 8815. Use it to exclude interest earned on EE savings bonds issued after 1989 if the money goes to fund higher education.

■ **POWER PLAY.** Especially timely now, the 320-page *Alternative Energy Sourcebook* offers data on solar panels, wind-power generators, and more; $10 (800 762-7325).

■ **AN OPEN SECRET.** For 20% more, sports shops are selling 150,000 Wilson Champions Extra Duty tennis balls s cially marked "U. S. Ope About 40,000 went for play this year's event at Flush Meadow, N. Y.

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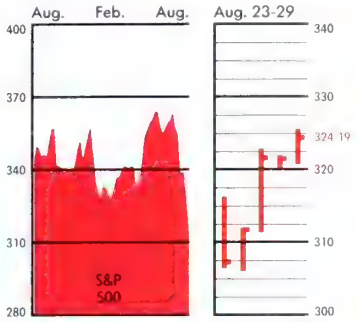
MMENTARY

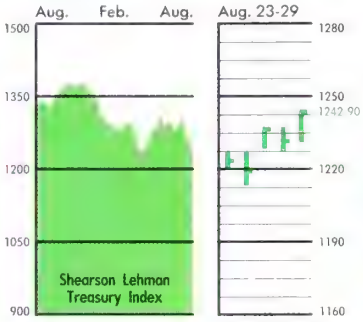
e markets revived from last ek's debacle. Stocks posted ir sharpest gain all year on g. 26, with the Dow jumping a ty 79 points. Bond prices ged, and short-term rates de- ied as the price of oil fell from 1 a barrel to $26 with the reement by OPEC to substan- ly increase production. The dol- weakened, but that could help orts and be a plus for the nomy. Gold, the classic invest- nt when war threatens, fell n $420 an ounce to $386.

STOCKS



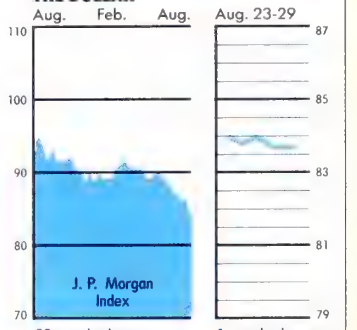
52-week change **–7.5%** | 1-week change **+2.4%**

BONDS



52-week change **–6.7%** | 1-week change **+1.1%**

THE DOLLAR



52-week change **–10.3%** | 1-week change **–0.4%**

MARKET ANALYSIS

U.S. STOCKS	Latest	% change Week	% change 52-week
W JONES INDUSTRIALS	2632.4	2.8	–3.5
COMPANIES (Russell 1000)	167.4	2.4	–9.5
ALL COMPANIES (Russell 2000)	140.1	0.8	–21.1
COMPANIES (Russell 3000)	177.6	2.3	–10.3

REIGN STOCKS	Latest	% change (local currency) Week	52-week
IDON (FINANCIAL TIMES 100)	2125.7	1.0	–10.7
YO (NIKKEI INDEX)	24,894.8	–1.3	–27.8
ONTO (TSE COMPOSITE)	3339.7	–2.7	–16.7

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	7.7%	7.9%	8.1%
30-YEAR TREASURY BOND YIELD	8.9%	9.1%	8.2%
S&P 500 DIVIDEND YIELD	3.6%	3.6%	3.0%
S&P 500 PRICE/EARNINGS RATIO	15.1	14.8	13.5

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 26-week moving average	346.7	347.1	Negative
Stocks above 26-week moving average	16.1%	18.1%	Positive
Speculative sentiment: Put/call ratio	0.45	0.48	Positive
Insider sentiment: Vickers sell/buy ratio	1.16	1.21	Positive

NDUSTRY GROUPS

BRIDGE INFORMATION SYSTEMS INC

R-WEEK LEADERS	% change 4-week	52-week	Strongest stock in group	% change 4-week	52-week	Price
OLD MINING	3.0	18.7	PLACER DOME	6.8	13.7	17⅝
IL AND GAS DRILLING	2.8	25.3	ROWAN	3.8	44.0	13½
OMESTIC OIL	0.5	9.3	AMERADA HESS	8.0	30.9	52⅜
TERNATIONAL OIL	–1.9	20.4	TEXACO	–0.2	25.8	62¾
IL WELL EQUIPMENT AND SERVICES	–2.0	32.6	SCHLUMBERGER	0.2	42.5	63¼

R-WEEK LAGGARDS	% change 4-week	52-week	Weakest stock in group	% change 4-week	52-week	Price
RLINES	–27.6	–55.1	UAL	–39.4	–65.8	95⅛
OMEBUILDING	–22.0	–47.5	U. S. HOME	–38.9	–54.2	11/16
OTELS AND MOTELS	–21.8	–63.4	PROMUS	–37.9	–45.5	16
RSONAL LOANS	–20.9	–34.5	HOUSEHOLD INTERNATIONAL	–24.3	–42.8	34¼
AVY-DUTY TRUCKS AND PARTS	–20.2	–31.0	NAVISTAR INTERNATIONAL	–25.0	–40.0	3

UTUAL FUNDS

MORNINGSTAR INC

DERS

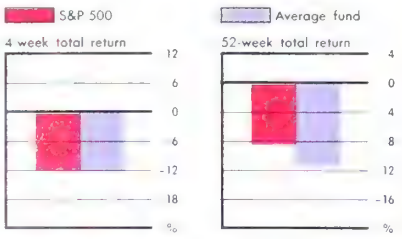
week total return	%
TRATEGIC GOLD/MINERALS	11.4
TRATEGIC INVESTMENTS	11.0
ANCHARD PRECIOUS METALS	10.3

eek total return	%
UITY STRATEGIES	48.3
DELITY SELECT ENERGY SERVICE	38.2
DELITY SELECT BIOTECHNOLOGY	28.6

LAGGARDS

Four-week total return	%
PRUDENT SPECULATOR LEVERAGED	–34.2
BULL & BEAR SPECIAL EQUITIES	–30.5
TYNDALL TIGER	–30.3

52-week total return	%
PRUDENT SPECULATOR LEVERAGED	–49.1
WASHINGTON AREA GROWTH	–38.6
FIDELITY SELECT BROADCAST & MEDIA	–36.6



ELATIVE PORTFOLIOS

DATA RESOURCES INC.

ir amounts esent the present e of $10,000 sted one year in each portfolio

ntages indicate lay total returns

Gold	Money market fund	Treasury bonds	U. S. stocks	Foreign stocks
$10,719	**$10,705**	**$9,914**	**$9,238**	**$9,140**
–4.78%	+0.14%	–1.14%	–0.16%	+1.76%

a on this page are as of market close Wednesday, Aug. 29, 1990, unless otherwise indicated. y groups include S&P 500 companies only; performance and share prices are as of market close Aug. 28. Mutual fund returns are as of Aug. 24. Relative portfolios are valued as of Aug. 28. A more detailed explanation of this page is available on request.

HANDS OFF THE OIL RESERVE

As the price of gasoline at the pump soared, the 590 million barrels of crude oil stashed in the Strategic Petroleum Reserve's salt domes became a tempting solution to the nation's energy woes. Some politicians and economists want to tap the reserve's 3.5 million-barrel-a-day capacity, lowering prices and protecting the economy. Their concern is understandable. But the Administration is surely right to refuse to use the reserve.

Under current law, the President may draw down the petroleum reserve only in a "severe energy supply disruption." To open the spigots, such a shortage would have to have a major impact on national safety or the national economy.

Fortunately, those conditions don't exist right now. Sure, the threat of war has roiled oil markets. But despite the worldwide ban on Iraqi and Kuwaiti oil, world crude stocks are the highest they've ever been. Consumers have responded well. They don't seem to be topping off tanks or otherwise hoarding gasoline. Nor are there serpentine lines at the pump. And there probably won't be, now that OPEC is gearing up to fill in much of the supply gap for a while.

What's more, depleting the oil reserves wouldn't necessarily have the intended impact on the cost of crude, whose price is based on world markets. A unilateral release of oil in the U. S. would not change market psychology for long, especially if Japan and Europe didn't follow suit.

Before dipping into reserves, the U. S. should apply the lessons of the 1970s and early '80s and reinstitute conservation. Reimposing the 55 miles per hour federal speed limit, for instance, could provide handsome returns. If war erupts, if the threat to Saudi Arabian production escalates, and if the oil price hits the stratosphere, then we will have a crisis of the sort the reserve was designed to ease. The U. S. can live with $28-a-barrel oil for now. A price that low doesn't justify depleting stocks that are our energy security.

AT LAST, A SOFTER SELL FOR HOME COMPUTERS

The U. S. computer industry overreached itself back in the early 1980s when aggressive advertising warned Americans that, unless they rushed out to buy a home computer, they were destined to be dinosaurs, their progeny doomed to a lifetime of flipping hamburgers at fast-food joints. Millions of computers were snapped up with hefty price tags averaging $1,000. Some 700,000 people bought the machines during the 1984 Christmas season alone. The problem was, most of these new owners never figured out what to do with the machines once they got them home. Neither did their children.

Now, computer makers are trying again. They have developed easy-to-use products, built new distribution channels, and come up with fresh merchandising tactics to try to turn the computer into an appliance on a par with TVs and VCRs. They figure America's exposure to technology makes this effort well-timed: Researchers say some 28 million U. S. workers use personal computers in their offices, and some 8.2 million more PCs are at use in schools.

This time, most marketing programs highlight solid reasons for buying a PC for the kitchen counter or spare bedroom. Workers, for instance, can use them to finish jobs that used to keep them in the office late into the evening. And since kids are often required to do some schoolwork on a PC, having one around the house might be more valuable than, say, the latest Nintendo game.

Such reasonable and responsible marketing could make the home computer movement of the 1990s a real success the way the hard sell never could.

THE REAL CULPRITS IN THE S&L MESS

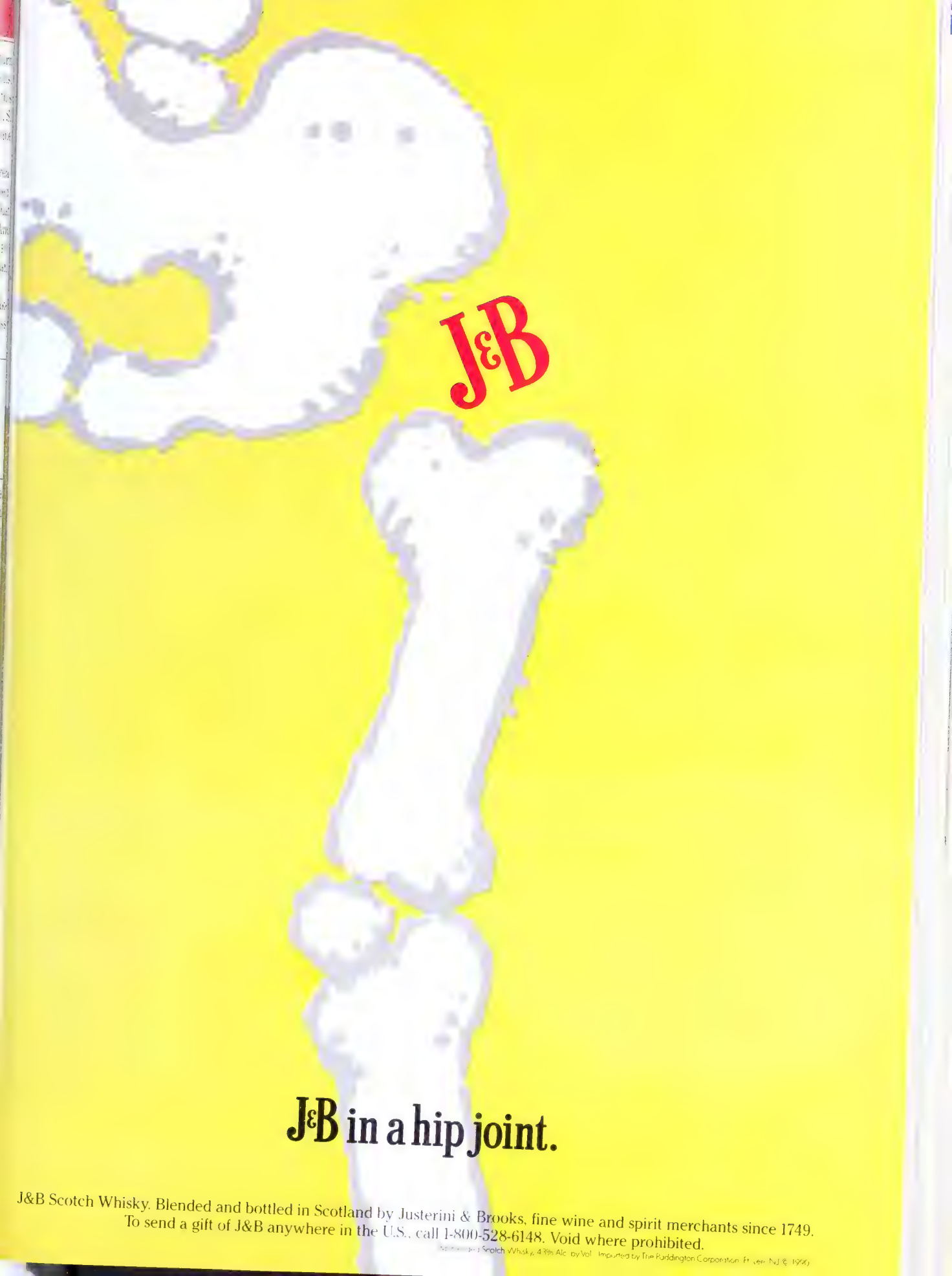
A recent *New York Times*/CBS News Poll turned up some important public attitudes about responsibility for the savings and loan crisis. The damage to the financial system is clear: 59% of those surveyed said they feared that the worst of the S&L crisis was yet to come, while 40% said they didn't think commercial banks were absolutely safe. And, flying in the face of the conventional view that federal guarantees on deposits encouraged thrifts to take risks, 61% strongly supported the federal deposit insurance system. If the politicians listen to that, pressure to limit deposit insurance could wither.

Surprisingly, 55% blamed thrift insiders for the crisis, while only 10% blamed Congress. The shameless politics grandstanding now rampant in Washington is having its intended effect. When lawmakers demand that prosecutors "throw the crooks in jail," the public forgets that Congress is culpable as well.

Thrift-industry insiders who looted their institutions deserve the opprobrium—and punishment. Attorney General Richard L. Thornburgh's crackdown on S&L fraud will exact a measure of justice (page 84). The Justice Dept. has already obtained several hundred guilty pleas and convictions. But the five-year statute of limitations may bar some prosecutions, and the $57 million recouped so far is but a microscopic portion of the debacle's $500 billion cost.

There seems to be even less chance for political justice. After all, it was two successive deregulation-minded Administrations, abetted by a Congress beholden to S&L contributors, that invited trouble. Washington did away with interest rate ceilings on savings, forcing the thrifts to pay high interest rates to attract deposits. With S&Ls under pressure, as a result, Congress in 1982 permitted them to enter the riskier lines of business to boost revenues, but without tightening supervision and limits on deposit insurance.

The public's ire is aimed at those who took advantage of the feeding trough the politicians created. But it's important to remember that Washington was in fact the managing partner in this crime.



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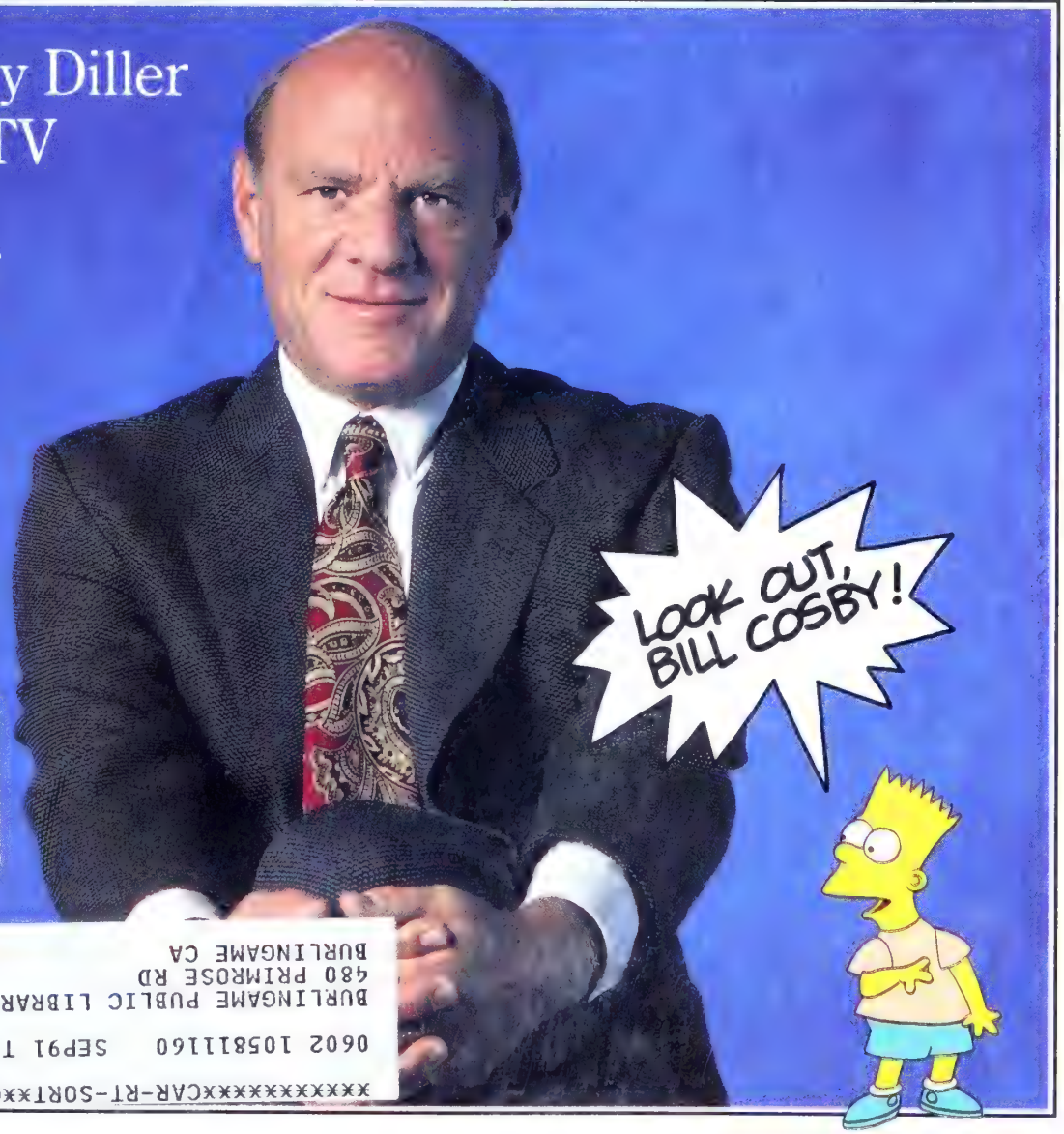
THE FOURTH NETWORK

How Barry Diller built Fox TV into a contender

PAGE 114



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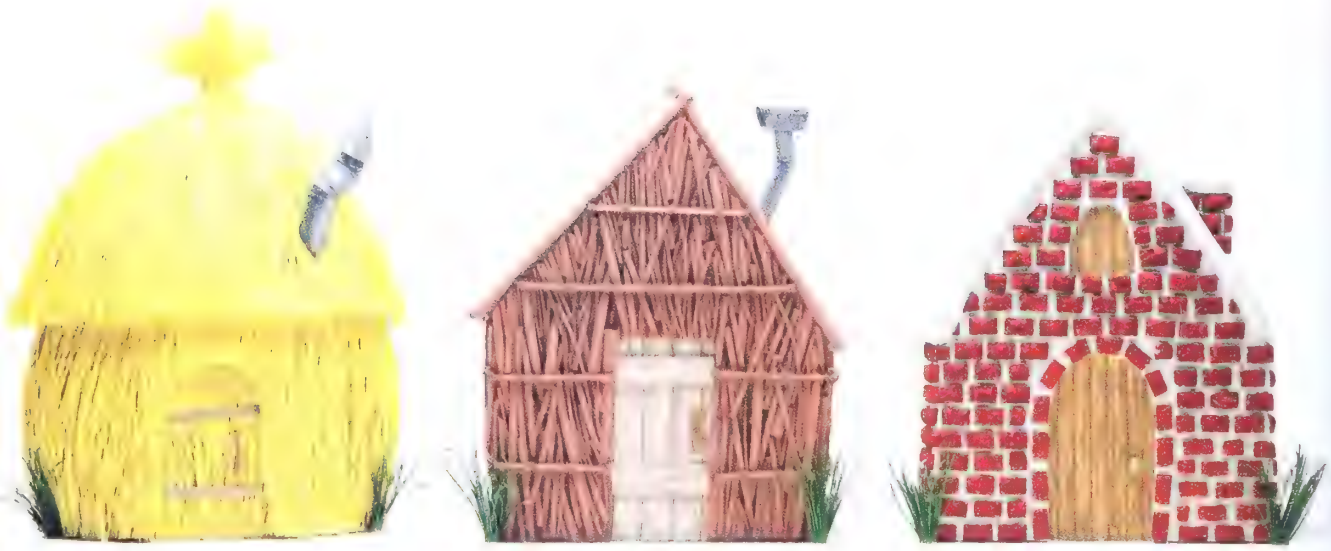

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SEPTEMBER 17

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Cover Story

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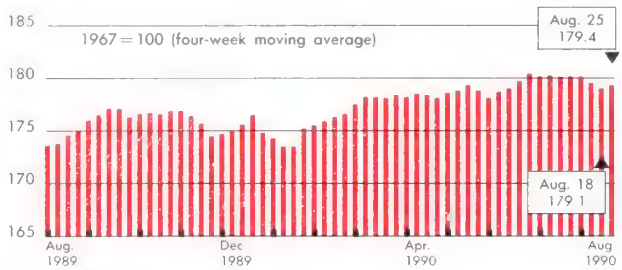
BusinessWeek Index

PRODUCTION

Change from last week: 0.2%
Change from last year: 2.5%

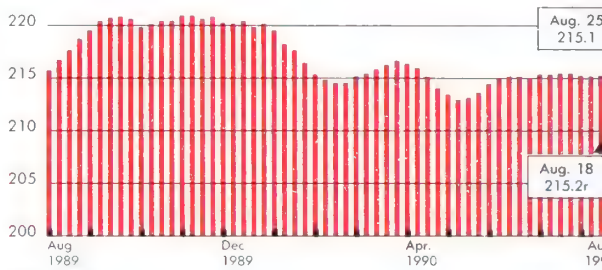


The production index edged up for the week ended Aug. 25 but remains below its levels of June and July. On a seasonally adjusted basis, truck output surged, and lumber, rail-freight traffic, coal, steel, auto, and paperboard production increased as well. Paper production dropped, and output of electric power and crude-oil refining were unchanged from the previous week. Before calculation of the four-week moving average, the index increased to 180.7, from 178.7 in the week before.

BW production index copyright 1990 by McGraw Hill Inc

LEADING

Change from last week: –0.1%
Change from last year: –1.7%



The leading index decreased for the week ended Aug. 25. Stock prices we sharply lower, and long-term bond yields moved highe, in response to the Mido East crisis. Other negative signs came from a rise in business failures and slow growth in real estate loans. Growth rates for M2 and materials prices were highe Prior to calculation of the four-week moving average, the index dropped to 214. from 215.7 in the previous week.

Leading index copyright 1990 by Center for International Business Cycle Research

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
STEEL (9/1) thous. of net tons	1,900	1,937 #	11.6
AUTOS (9/1) units	124,038	108,417r #	2.0
TRUCKS (9/1) units	73,934	75,574r #	8.6
ELECTRIC POWER (9/1) millions of kilowatt-hours	65,279	62,261 #	7.7
CRUDE-OIL REFINING (9/1) thous. of bbl./day	14,176	14,143 #	0.5
COAL (8/25) thous. of net tons	20,871 #	20,521	4.5
PAPERBOARD (8/25) thous. of tons	731.1 #	727.0r	–2.0
PAPER (8/25) thous. of tons	767.0 #	765.0r	3.1
LUMBER (8/25) millions of ft.	479.9 #	451.6	–7.6
RAIL FREIGHT (8/25) billions of ton-miles	21.0 #	20.6	6.1

Sources: American Iron & Steel Inst., *Ward's Automotive Reports*, Edison Electric Inst., American Petroleum Inst., Energy Dept., American Paper Inst., WWPA[1], SFPA[2], Association of American Railroads.

FOREIGN EXCHANGE

	Latest week	Week ago	Year ago
JAPANESE YEN (9/5)	142	144	146
GERMAN MARK (9/5)	1.56	1.56	1.98
BRITISH POUND (9/5)	1.90	1.95	1.55
FRENCH FRANC (9/5)	5.23	5.22	6.68
CANADIAN DOLLAR (9/5)	1.15	1.14	1.19
SWISS FRANC (9/5)	1.30	1.29	1.71
MEXICAN PESO (9/5)[3]	2,888	2,886	2,550

Sources: Major New York banks. Currencies expressed in units per U. S. dollar, except for British pound expressed in dollars.

PRICES

	Latest week	Week ago	% Change year ago
GOLD (9/5) $/troy oz.	383.300	384.300	6.4
STEEL SCRAP (9/4) # 1 heavy, $/ton	115.50	118.00	6.0
FOODSTUFFS (8/31) index, 1967 = 100	212.6	216.8	–2.3
COPPER (9/1) ¢/lb.	133.6	135.3	–2.9
ALUMINUM (9/1) ¢/lb.	82.0	82.0	–1.6
WHEAT (9/1) # 2 hard, $/bu.	2.85	2.89	–32.9
COTTON (9/1) strict low middling 1-1/16 in., ¢/lb.	74.97	74.50	1.2

Sources: London Wed. final setting, Chicago mkt., Commodity Research Bureau, *Metals Week*, Kansas City mkt., Memphis mkt.

LEADING INDICATORS

	Latest week	Week ago	% Ch year
STOCK PRICES (8/31) S&P 500	321.65	317.10	
CORPORATE BOND YIELD, Aaa (8/31)	9.56%	9.50%	
INDUSTRIAL MATERIALS PRICES (8/31)	105.3	106.2	
BUSINESS FAILURES (8/24)	292	276	
REAL ESTATE LOANS (8/22) billions	$380.1	$380.3	
MONEY SUPPLY, M2 (8/20) billions	$3,312.3	$3,304.1r	
INITIAL CLAIMS, UNEMPLOYMENT (8/18) thous.	382	366	

Sources: Standard & Poor's, Moody's, *Journal of Commerce* (index: 1980 = 100), D Bradstreet (failures of large companies), Federal Reserve Board, Labor Dept. CIBCR sea ally adjusts data on business failures and real estate loans.

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Ch year
CONSTR. SPENDING (July) annual rate, billions	$442.2	$440.4r	
MANUFACTURERS' INVENTORIES (July) billions	$373.3	$370.7	
MANUFACTURING SHIPMENTS (July) billions	$237.5	$239.5	
PURCHASING MANAGERS' INDEX (Aug.)	47.0%	47.4%	

Sources: Census Bureau, Commerce Dept., National Association of Purchasing Manage

MONETARY INDICATORS

	Latest week	Week ago	% Ch year
MONEY SUPPLY, M1 (8/20)	$817.6	$814.9r	
BANKS' BUSINESS LOANS (8/22)	319.7	321.8r	
FREE RESERVES (8/22)	–159r	273r	
NONFINANCIAL COMMERCIAL PAPER (8/22)	145.0	146.0	

Sources: Federal Reserve Board (in billions, except for free reserves, which are express a two-week period in millions).

MONEY MARKET RATES

	Latest week	Week ago	Y
FEDERAL FUNDS (8/4)	8.17%	8.07%	8.
PRIME (8/5)	10.00	10.00	10.
COMMERCIAL PAPER 3-MONTH (8/4)	7.84	7.98	8.
CERTIFICATES OF DEPOSIT 3-MONTH (8/5)	7.91	8.04	8
EURODOLLAR 3-MONTH (8/29)	8.08	8.13	8

Sources: Federal Reserve Board, First Boston

# Raw data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equip
1 = Western Wood Products Assn. 2 = Southern Forest Products Assn. 3 = Free market value NA = Not available r = revised NM = Not meaningful

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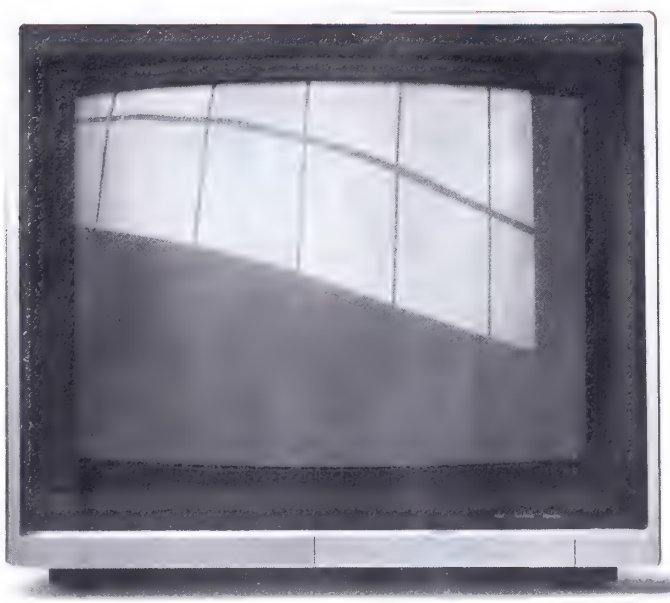

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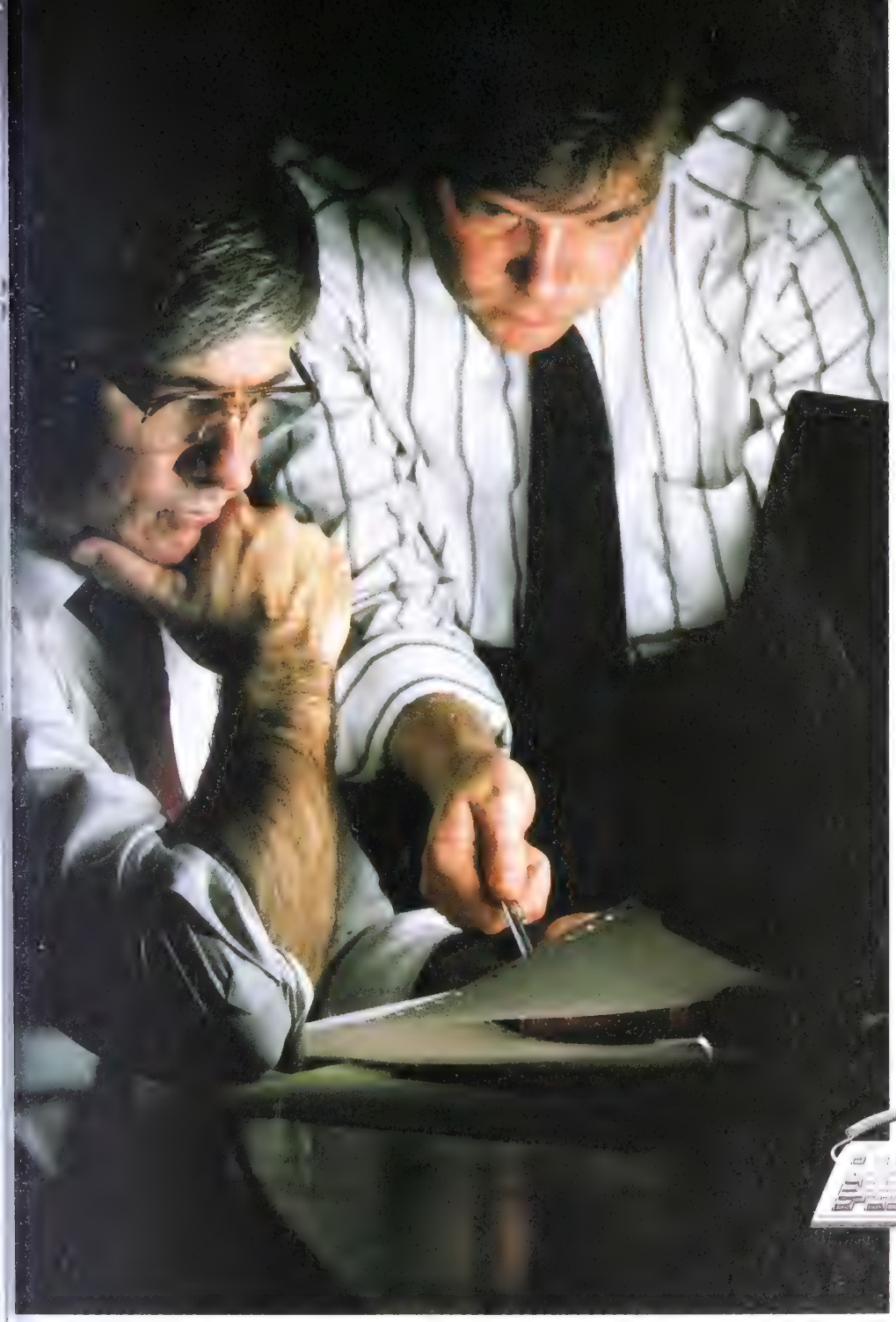

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Readers Report

THE U.S. IN THE MIDEAST: RIGHT OR WRONG?

In reference to your article "Oil war: the world vs. Iraq" (Cover Story, Aug 20), I believe Saddam Hussein has demonstrated he is a danger to the world with his use of chemical weapons and his effort to obtain germ and nuclear weapons, coupled with his demonstrated dishonesty and aggressive tendencies.

Even if there were no oil in Iraq the world would still have to confront this animal or prove that history, through Adolf Hitler, had taught us nothing.

Albert D. Hattis
Marshall, Minn.

"Fools rush in where angels dare not tread" is the perfect way to describe President Bush's decision to lead the crusade against the world's latest evil emperor, Iraq's Saddam Hussein.

Iraqi aggression is an Arab problem, not an American one. If Arabs feel their freedom is threatened by Saddam Hussein, they should lead the drive to free Kuwait and protect the oil fields of Saudi Arabia and the Emirates, not the U. S.

Our role should be limited to cooperating with the economic sanctions requested by the Arab League and the U. N. and to providing the same amount of naval support as Western Europe and the Soviet Union.

We also should make it clear that this support will continue only as long as the Arab states deem it necessary.

William J. Miller
Los Angeles

THE UNIONS' PART IN EASTERN'S TROUBLES

Regarding your article "Frank Lorenzo: The final days," (Top of the News, Aug. 27), the unions at Eastern Air Lines had an easy target in Frank Lorenzo, and apparently, as was the case with Richard Nixon, they won't have him to kick around anymore.

However, the absence of Frank Lorenzo won't change the unions at Eastern. They will continue to behave the way they did before they ever heard of him. They will vilify and undermine anyone and everyone in management, cause the unions at Eastern led by Ch lie Bryan have never known any ot way. In the case of Frank Lorenzo, l tory was just repeating itself.

Thomas J. Matthe
Hous

Editor's note: Mr. Matthews is a f mer senior vice-president of Easter

It is easy to blame Frank Lorenzo disaster at Continental Airlines and write, "Recent corporate history is po marked with craters of pitched batt between management and union," lowed by the conclusion that "usua these have resulted in the long run disaster for the company."

Doesn't union leadership have so responsibility for failing to resolve sues in these disputes? Are the uni proud of lost jobs, destroyed caree and wrecked companies—all in the na of "no union busting"?

Let's have an even playing field a balanced reporting. It seems to me t the stubborn leadership of the Mach ists Union had something to do with problems at Eastern—and still does.

In short, I expect more from BUSIN WEEK than from the television perso ities who have to cover the world in f minutes between commercials, but cently it has been the same smart-al writing and superficial analysis.

R. M. Coquille
Mattapoisett, Ma

WHAT REALLY MAKES A COMPANY 'WOMAN-FRIENDLY'?

Regarding your article "Welcome the woman-friendly company" (C er Story, Aug. 6), as a woman w would rather eat a live salamander th participate in "a three-day retr to . . . examine racial and gender bi through role-playing exercises leading "anger, shouting, and sometimes tea I wonder why your view of what ma a company "woman-friendly" takes s a stereotyped view of what wor want. Don't you realize that not all w en are alike and that some of us wo hardly welcome the sort of workpl where one's every remark and attit is relentlessly scrutinized and where

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.n be sent to the principal's—oops, vice-'esident's—office for telling the vrong" sort of joke?

Felicia Ackerman
Providence

t may be that the best companies for women are those whose corporate cul-res encourage cooperation among)men. Only where this exists will the cessary environment of trust toward)men managers develop.

The worst companies for women, in ct, fan the resentment some women ve toward more successful or able)men, using it as an undetectable ans of discrimination. The career of a nale executive is more likely to be railed by this than by anything else.

Lilly E. Hirsch
Mahwah, N. J.

LAW FIRM RESENTS ITS CASE

Although our former partner, mentioned in your article "For law ms, it's *Dog v. Dog* out there" (Legal fairs, Aug. 6), represented important d valued clients in a practice we great-expanded during his nine years with his annual billings were never anyere near $6 million. Moreover, not all of the business that was credited to him actually went with him when our partners voted to expel him.

On the contrary, we are happy to report that our own practice, now led by two outstanding members of the bankruptcy bar, prospered following the departure to which you refer. For example, we were selected to represent creditors holding over $1 billion in debt in the Interco Inc. matter. Because we expect our creditors' rights business to continue to grow, we have hired associates to augment the substantial resources of our bankruptcy and restructuring group.

Geoffrey M. Kalmus
Managing Partner
Kramer, Levin, Nessen, Kamin & Frankel
New York

CORRECTIONS & CLARIFICATIONS

A story on Telebase Systems Inc. that appeared in some editions, "This data broker is a real tell-it-all" (Information Processing, Aug. 27), incorrectly identified Israel J. Melman as chief executive. He is chairman, and James E. Coane is CEO and president. We also erred in saying Marvin I. Weinberger was a founder of Telebase.

HOUSEPLANTS ARE NO PANACEA FOR FOUL AIR

In the recent article "Making your office human-friendly" (Personal Business, Aug. 20), you offer unproven industry claims about houseplants as NASA-endorsed health measures. That is dangerous.

Pollutant-source removal and ventilation are better choices. When real people in real buildings—some with brown thumbs—tend their plants with pesticides, fertilizer, and watering, they may add pollutants.

Plant-toxicity studies over time may show some to be valuable and others to die quickly. Different light, temperature, and care patterns are unknown variables. Plants' seasonal cycles, size, and air variations (temperature, humidity, and air movement) are likely to influence results.

I love my plants, but I can't let my health depend on them just yet.

Lee Richardson
Baltimore

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Books

THE BORDERLESS WORLD
By Kenichi Ohmae
Harper Business • 223pp • $21.95

THE COMING GLOBAL BOOM
By Charles R. Morris
Bantam • 267pp • $19.95

THE MIDAS TOUCH
By Anthony Sampson
Dutton • 273pp • $19.

BURYING THE NATION-STATE BEFORE IT'S DEAD

Just a few weeks ago, the nation-state was in serious trouble. In America's case, allies felt that the country's best shot for the 1990s was to clean up its act at home and try to forge a regional economy with Canada and Mexico. German-led Europe, its hands full with Eastern neighbors, was marching toward the first post-cold-war supereconomy. Japan was spreading its influence across Asia and even offering the U. S. partnership terms: Japan would handle financial and economic policy; the U. S. would take politics and security.

Then came the Persian Gulf crisis. Now, with Japan and Europe in the gulf like spectators at a regatta, it is again, at least temporarily, a U. S.-dominated world. That's a problem not just for international strategists and diplomats. It's a downright embarrassment for globalists—those economic seers who envision our future denominated by united GNPs, our values determined by what's best for commerce.

These three books fall into this trap. Mesmerized by the spectacular international expansion of all large nations in the 1980s, the globalists wrote a blank check on economic determinism. They misread the end of the cold war as a signal that market economies were the only game around, and they mistook the universal acceptance of the world's information utility, the Cable News Network, to mean we would all soon be one intellectual melting pot. Transatlantic and transpacific takeovers proved how sophisticated we had become about international business. Money-washing across borders showed that currencies had forever escaped sovereign control. And companies that made chips in Singapore, speakers in Thailand, and cabinets in Malaysia, assembling the components in Spain for Germans, Swedes, Brits, demonstrated how impossible was for any one nation, or inte group, to control its destiny. Then c Saddam Hussein.

For true globalists, of course, s tyrants are irritating annoyances. In camp, few outdo Kenichi Ohmae, d tor of McKinsey & Co.'s Tokyo offic prolific drumbeater for the indus megastate, Ohmae maintains in *Borderless World* that, but for atav politicians, we might already be pled allegiance to the Interlinked Econom the Triad, a free-market nirvana which Japan, Europe, and the U. S. so joined that balance-of-payments cits, investment restrictions, immigra rules, trade barriers, and debates a industrial policy evaporate. In the "the only thing that matters is that competes with DEC and Fujitsu," Oh informs us.

Like all true believers, Ohmae n questions his assumptions. His chie gret is that we seem so reluctan

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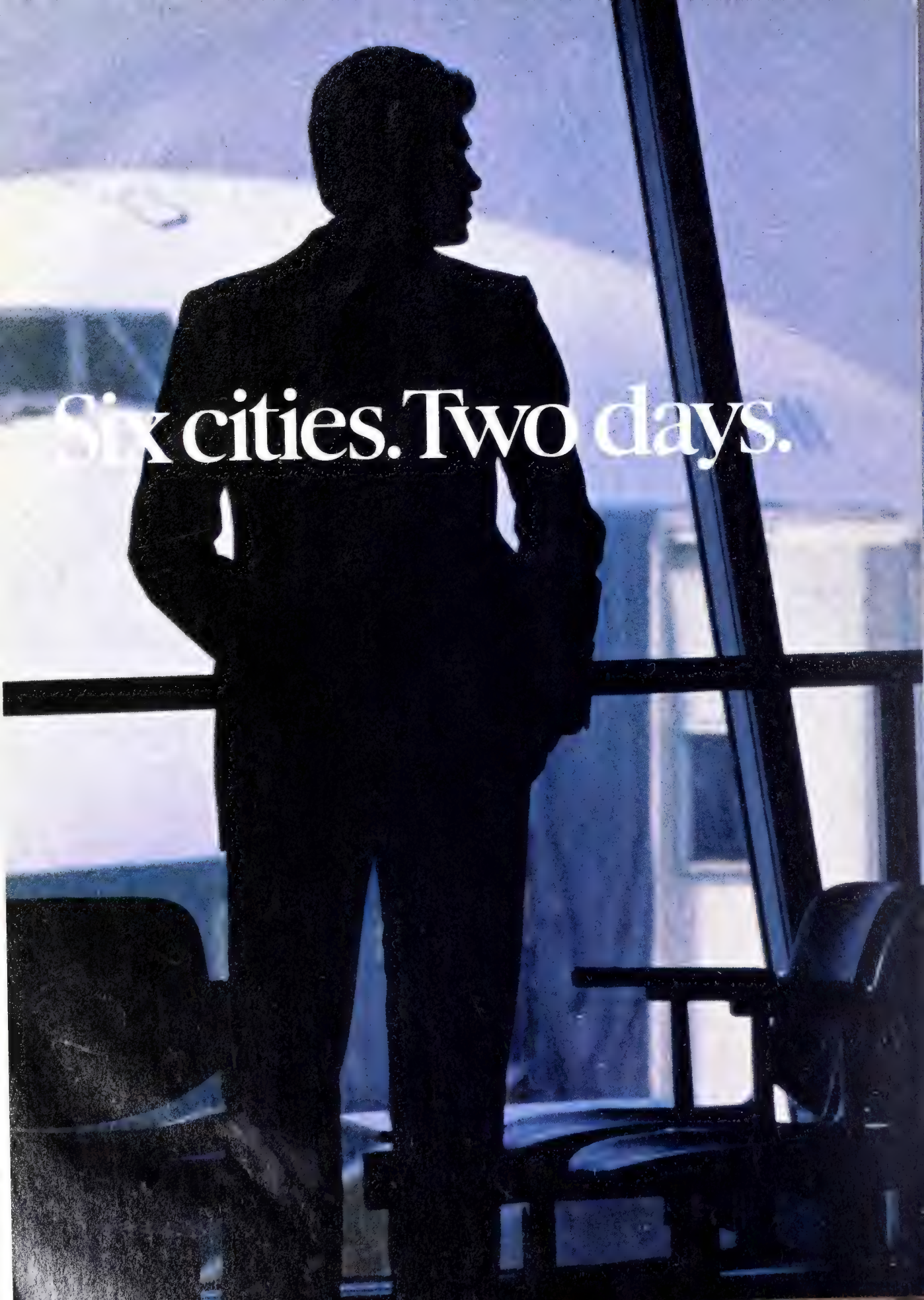
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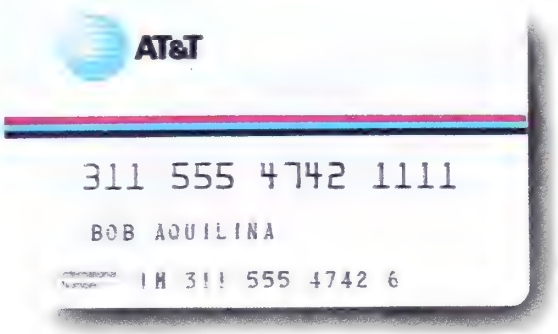

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accept our destiny, a problem he blames on politicians afraid of jumping into the great economic Cuisinart and on a U. S. press "hysterical about Japan." Business, he suggests, may have to give national leaders a swift kick toward Triadism by signing on to his "Declaration of Interdependence Toward the World—2005," an economic manifesto that would override, among other documents, the American Constitution and France's declaration of *Les Droits de l'Homme.*

Ohmae discovered long ago that outrageous provocation, especially from a Japanese consultant, is a winning formula for selling books. But *The Borderless World* strays between fact and futurism so freely that it's impossible to know what Ohmae wants us to take seriously. Given the need to solve global health, environment, and development problems, he suggests that national governments in a supergovernment world might collect only one-third of our taxes, a U. N.-type fund for world betterment another third, and municipal groups the rest. Is that plausible? Business already is so "nationalityless," he says, that "if a corporation does not like its government, it can move its headquarters to other, more hospitable places."

> History—in the form of the Persian Gulf crisis—has already tripped up these three visions of the future

Unfortunately, Ohmae's only proof for this are two small Swedish manufacturers who did indeed flee to Switzerland for tax relief. Similarly, Ohmae is forced to admit that only finance, with floating currencies and freely moving capital, fits the description of an industry that now operates without borders.

Where Ohmae delights in extremism, Charles R. Morris, an investment banker and journalist, is an assertive contrarian. In *The Coming Global Boom,* Morris sets out an intelligent counterargument to those who see America in a state of irreversible decline. The attraction of this book is its simplicity and single line of argument. Either you believe Morris, or you don't.

Morris doesn't waste time bashing politicians. He's gunning for worrywart economists, who, he observes, make up about 90% of that profession. The bad-news warts get all the press, but the handful of optimists will carry the day, Morris prophesies, because the warts extrapolate from historical data, missing the main future events. To a worrywa add to the budget deficit the cost of Persian Gulf crisis and a recession, a America is Bangladesh. To an optim the world is awash with money to b row, so why worry? Optimists such Morris believe that economic cyc aren't synchronous flows but the lur ing surges and pauses foreseen by A trian economist Joseph Schumpeter.

Morris thinks the '90s will kick of surge big enough to wipe out the tra and budget deficits, raise productiv and shift spending from consumption investment in a fundamental way. evidence? First, baby boomers are tling down and saving enough so that the mid-1990s, Americans' personal s ings may double, to around 10% of posable income. What most economi miss, says Morris, is that boomers starting to sock it away for the ki education and their own retirement.

Japan is also misunderstood, he fe The Japanese are likely to spend mo save and work less, and open up m kets more quickly than anyone expe thus shrinking, if not eliminating, trade deficit. America's miserable p ductivity in services should also impr as the technology of the '80s hits stride in communications, finance, even hamburger-flipping. If you buy stuff, remember that Morris the wr is also Morris the dealmaker.

British writer Anthony Sampson ha different problem. Sampson, the aut of numerous books, including the w regarded *The Seven Sisters,* co across in *The Midas Touch* like a M terranean tourist trying to absorb meaning of Trump Tower. He's a li dazed by the money power of the 19 and a little worried about what it may to us in the 1990s. Sampson intervie new-money billionaires in New Y about their sudden wealth, corpor money custodians in Japan about kyo's staggering surplus, and Chin billionaires in Hong Kong about they do so well outside of mainland na—as if he needed to ask.

To be fair, Sampson's book is a s off from a television series he did the same title, and with TV's necess brevity, the show was probably more teresting. Sampson shares Morris' Ohmae's gee-whiz attitude about melting away of economic boundar But give him credit at least for s political antennae. Unlike the other t he's pretty sure the money-state ha yet replaced the nation-state. Nations points out, have a way of coming b He's right. Ask Saddam Hussein.

BY ROBERT J. DOWL

Dowling is BUSINESS WEEK's senior ed for international coverage.

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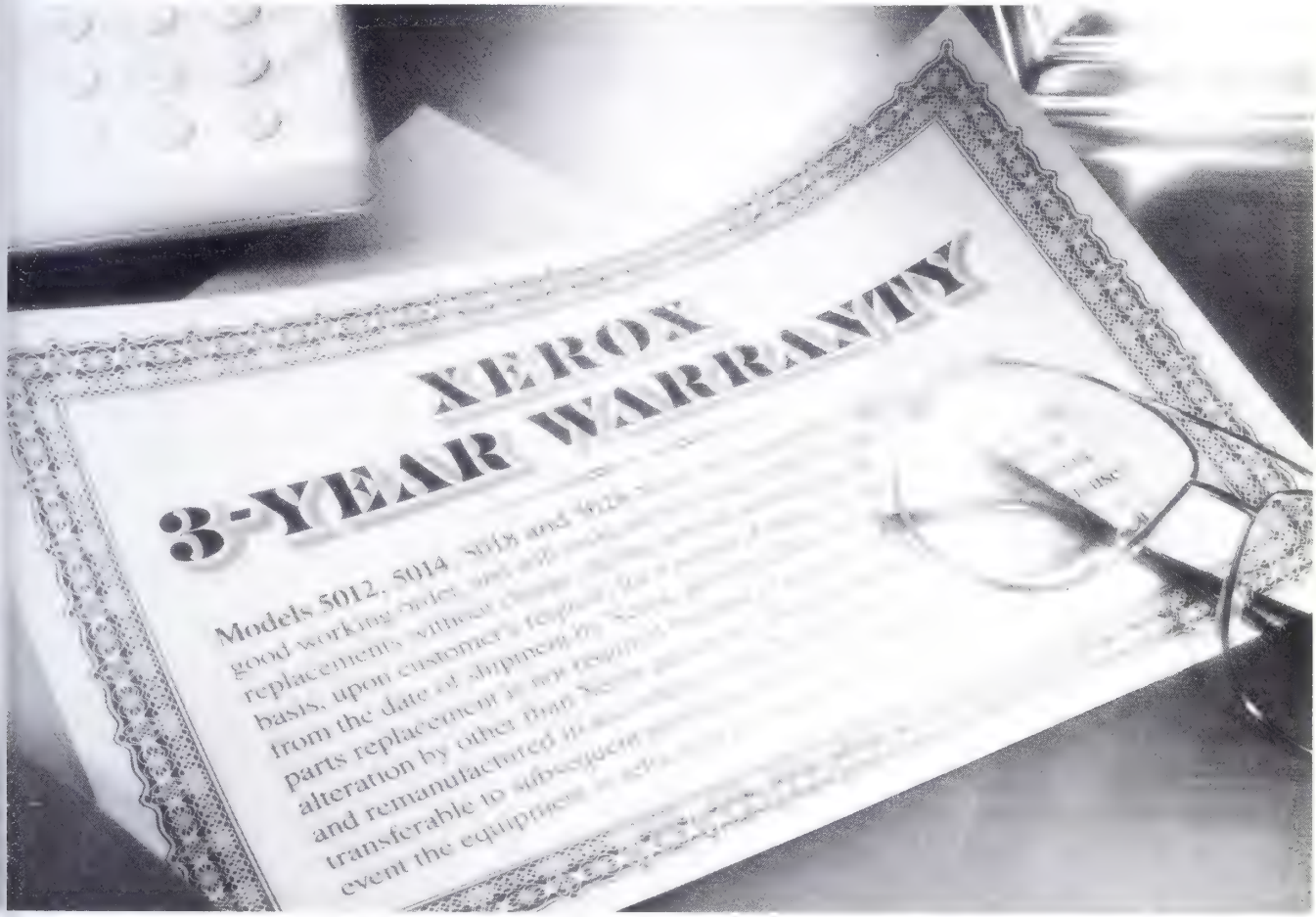

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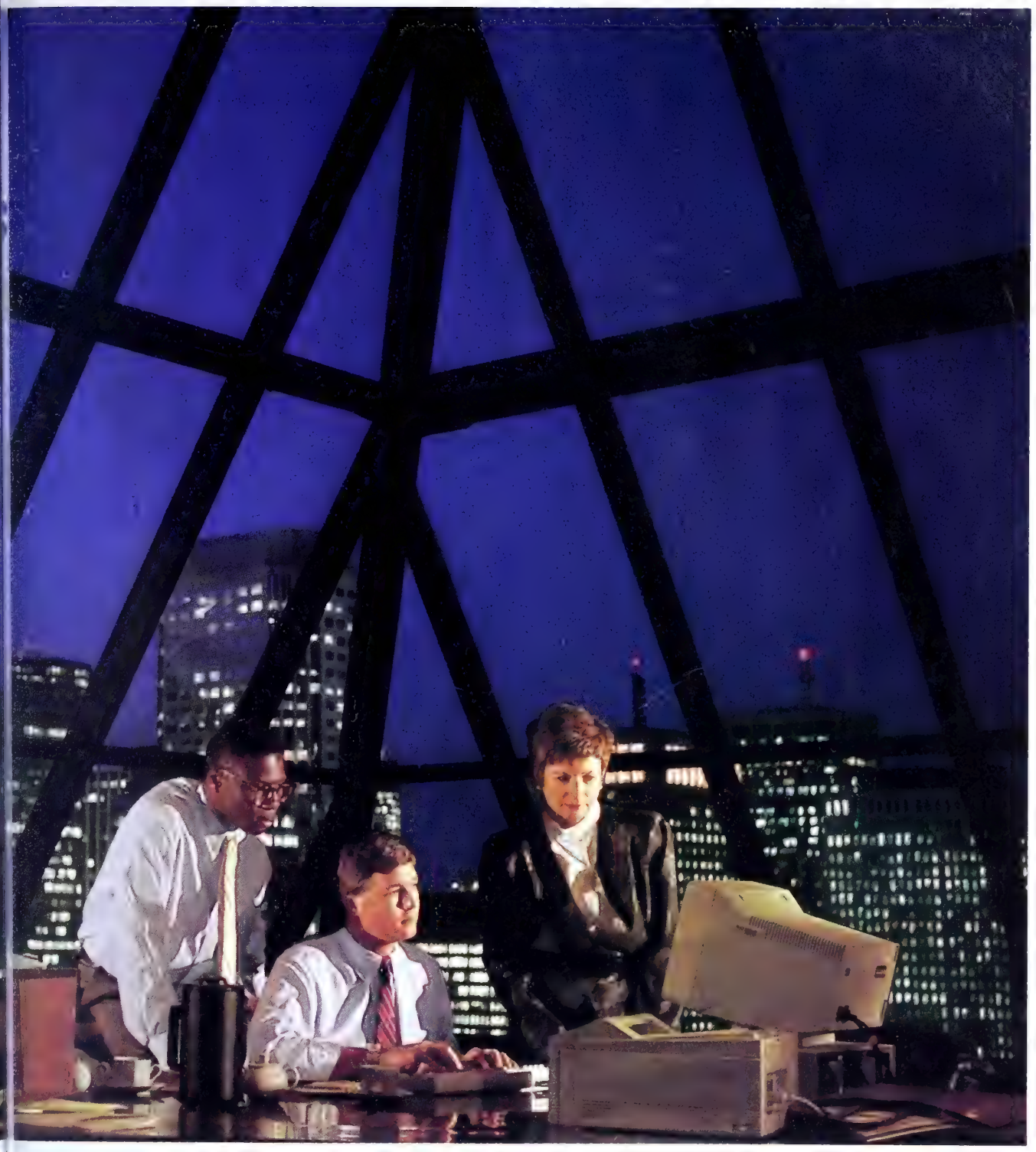

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HOW WE CAN BREAK THE CYCLE OF OIL CRUNCHES

BY ROBERT KUTTNER

A sound strategy would reduce dependence on imported oil, develop domestic alternatives, and ensure stable prices through a long-term contract with oil-exporting nations

The military crisis in the Persian Gulf is also America's third oil crisis in less than two decades. The 1980s was a decade of lost opportunity in energy policy. The Bush Administration is currently drafting a minimalist energy policy—lower thermostats, insulation, sweaters, incentives for domestic production, and so on. This, after all, is a President who could not bring himself to give up his speedboat.

After the first oil shock, the Ford and Carter Administrations took some guarded steps toward energy self-sufficiency. A few approaches, such as Synfuels Corp., were mostly boondoggles. Others, such as the billion-dollar research effort to develop solar energy and other renewables, were sensible but were scrapped by the Reagan Administration. Still other policies, such as the corporate average fuel efficiency (CAFE) standard, mandating a fleet average of 27.5 miles per gallon, worked well as far as they went. Unfortunately, the return to relatively cheap oil and the Reagan Administration's romance with laissez-faire killed price incentives and policy incentives either to conserve or to develop alternative fuels. Imported oil, which dropped to 28% of consumption in 1982, is today back to nearly 50%.

Now that Saddam Hussein has gotten our attention, a sound strategy would have three elements: first, a reduced dependence on imported oil. Second, development of domestic alternatives, relying mainly on more efficient energy use and on renewables. According to the International Energy Agency, improved energy efficiency now annually displaces $250 billion a year in energy consumption by industrial countries; if we used energy as efficiently as Japan does, we would save $200 billion more. And third, for our remaining oil imports, we need a long-term contract with oil-exporting nations at a stable price.

CAPTIVE COMMODITY. Note that each of these goals contradicts the shibboleths of standard economics. The very idea of national "self-sufficiency" in any product is an affront to economic orthodoxy, which celebrates free trade. But oil is not any product, and it is not freely traded. Ever since the first John D. Rockefeller, oil production has been largely cartelized. In the 19th century, it was cartelized by robber barons. For much of the 20th century, after the discovery of vast Middle East oil reserves, it was cartelized by the major oil producers, and after 1973 by OPEC.

Economists insist that over the long run, no cartel can last—but as Keynes remarked, in the long run, we are all dead. A century is a pretty long time. Mideast oil costs about $2 a barrel to pump. In a genuinely free market, bas on supply and demand with no collusi oil would sell for well under $10 a barr But the price will remain politicized o way or another, and standard economi is a poor guide to energy policy.

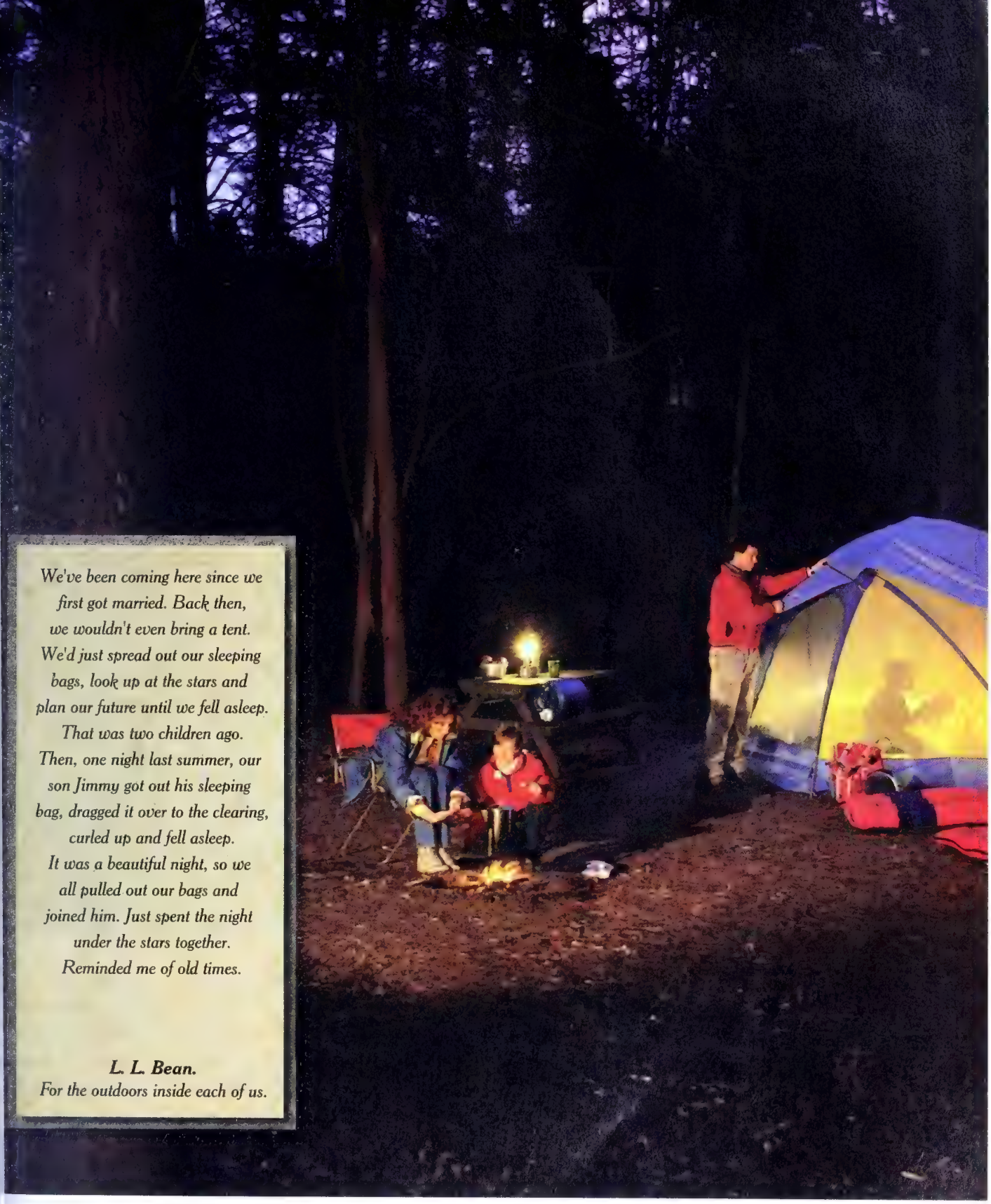
It behooves us to stabilize the price oil as much as we possibly can and u that stability to develop alternati sources. The effect of fossil fuels on t environment makes the exercise th much more urgent. Taxation—the mo "market-like" way of influenci prices—is only part of a policy. He again, standard economics gets it large wrong. A tax on gasoline, for examp functions mostly as a regressive n sance tax, not as a serious depressant consumption. The price elasticity of g oline is between 0.1 and 0.2—that is, 100% increase in the price would redu consumption by 10% to 20%. The reas is obvious: In the absence of substitu products or a mass transit system, mo driving is not discretionary.

NO SURPRISES. The CAFE standards, example of the dreaded R word, regu tion, have been far more efficient at i proving fuel efficiency, and they shou be increased. Higher taxes on gas a oil make sense, but only as one part o broader energy strategy. Ever sin OPEC seized control of the oil cartel, po cymakers have flirted with the idea o long-term, fixed-price oil contract. OP itself has floated the proposal from ti to time. The idea is widely ridiculed impractical—whenever oil was in tem rary glut, the contract price would undercut. But there are plenty of p vate-market examples of long-term co tracts, in which producer and purcha bind themselves to a fixed quantity a price, foregoing the opportunity (or ri of windfall gains (or losses). The Sovi have a long-term contract—which t Reagan Administration tried to kill— supply Western Europe with natu gas. The periodic tendency of spot-pr oil to undercut the contract price co be remedied with a variable tax.

For example, consuming and prod ing nations could conclude a long-te agreement for oil priced at $20 per b rel—plus a $5-per-barrel tax. That wo produce revenues of upwards of $ billion per year, to be divided as follo One-third would capitalize an inter tional fund to finance research into newable-energy alternatives. One-th would be rebated to poor, oil-import nations. One-third would go to wa down Third World debt, itself the leg of failed energy policy.

Military intervention to rescue I wait's rich oil deposits is only hal strategy. The missing half is a seri energy policy.

ROBERT KUTTNER IS ECONOMICS CORRESPONDENT FOR *THE NEW REPUBLIC* AND AUTHOR OF *THE LIFE OF THE PARTY*



We've been coming here since we first got married. Back then, we wouldn't even bring a tent. We'd just spread out our sleeping bags, look up at the stars and plan our future until we fell asleep. That was two children ago. Then, one night last summer, our son Jimmy got out his sleeping bag, dragged it over to the clearing, curled up and fell asleep. It was a beautiful night, so we all pulled out our bags and joined him. Just spent the night under the stars together. Reminded me of old times.

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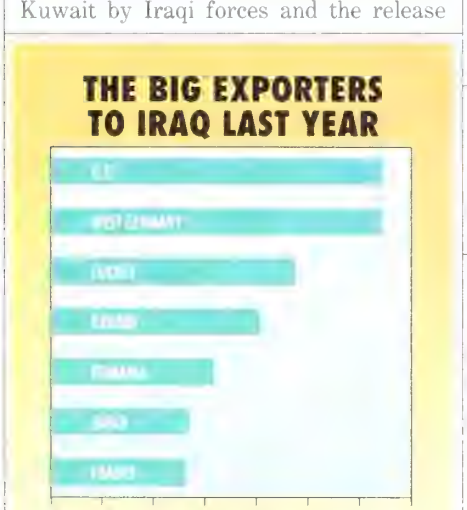
EDITED BY KAREN PENNAR

WILL THE EMBARGO WORK? A LOOK AT THE RECORD

The U. S., Europe, and most of the world moved quickly to impose sanctions on Saddam Hussein's Iraq. The question is: Will they work? As foreign-policy tools, economic sanctions have had mixed results. This time, predicts Gary Clyde Hufbauer, a senior fellow at the Institute for International Economics in Washington, sanctions will produce a "moderate policy success," but not a return to the status quo ante. By that, Hufbauer means that the key U. S. objectives—the withdrawal from Kuwait by Iraqi forces and the release of all Western hostages—are likely to be achieved without a ground war or an air strike. But the establishment of a truly independent government in Kuwait may be delayed.



Hufbauer has evaluated the results of numerous cases of economic sanctions, from the League of Nations embargo of Italy in 1935 following Mussolini's invasion of Ethiopia to the adoption of sanctions against South Africa in the 1980s to force the abolition of apartheid. The effectiveness of sanctions depends on how painful they are, and that in turn depends on how concerted the action is and whether there are "companion" actions, such as the current adoption of a naval blockade. Because Iraq is being shut off by almost all nations and the U. S. is enforcing a blockade, the squeeze on Iraq's economy could be severe. Hufbauer estimates that on an annual basis, lost oil exports could cost Iraq $30 billion, which amounts to a staggering 43% of the combined gross national products of Iraq and Kuwait. Historically, even a hit of 2% to 3% of GNP can cause severe economic distress, Hufbauer and colleagues Jeffrey J. Schott and Kimberly Ann Elliott found in earlier studies.

But the adoption of sanctions can also be costly for the targeting countries. First, exports to Iraq are cut off, and new markets for those goods must be found—probably at a lower price. In 1989, the U. S. was the largest exporter to Iraq, shipping $1.29 billion worth of goods, mostly agricultural. Then there's the higher oil-import bill many countries must pay—probably about an additional $25 billion a year, Hufbauer says. Such burdens may weigh heavily on poorer nations and over time threaten a united front. Despite his optimism, Hufbauer cautions: "Sanctions are most effective over a short time frame, and that's doubly so in this case."

JOBLESS CLAIMS MAY BE DELIVERING THE BAD NEWS LATE

Unemployment insurance claims, long classified as a leading indicator, may be turning into a lagging economic indicator, speculates economist Edward S. Hyman Jr. of C. J. Lawrence, Morgan Grenfell Inc. Hyman notes that weekly claims, which normally increase as economic activity falters, have remained relatively subdued this summer—even as other labor-market data have flashed red signals. The number of people continuing to receive unemployment insurance, for example, has moved steadily higher in recent months, indicating that job losers are finding it harder to find new work. Yet new filings for jobless insurance actually declined in July and rose only slightly in August.

Hyman thinks one reason for the sluggish behavior of claims this year may be the passage of the Worker Adjustment Retraining Notification Act, which went into effect last January. The law requires employers to give 60 days notice to employees before proceeding with layoffs affecting 100 or more workers. "By slowing the processes of furloughing workers," he says, "the law may have affected the timeliness of jobless claims as a signal of economic distress."

Unemployment insurance claims may also reflect the marked rise in multiple job-holding. The number of people holding two or more jobs rose by about 1.5 million from 1985 to 1989. Moonlighters—as well as part-timers and temporary or "contingent" workers who may lack eligibility for unemployment insurance—are often among the first to be laid off in an economic downturn.

With Gene Koretz in New Yo

ROCKY GLOBAL MARKET COULD SINK U.S. EXPORT GROWTH

Most economists expect U. S. exports to continue to grow briskly, especially in light of the dollar's recent weakness. But economist Richard B. Hoey of Barclays de Zoete Wedd Research Inc. is looking for exports to show a "pronounced deceleration" in the second half of 1990 and in 1991. The economic fundamentals favoring strong export growth are deteriorating, he argues. Slow growth in Britain, the Continent, and Canada is likely to weaken demand for U. S. goods, and the current oil shock will only worsen worldwide growth prospects. Then, too, says Hoey, U. S. exports have been heavily concentrated in capital goods, and demand for such goods is likely to slow as interest rates surge around the globe.

THE DEBT BINGE IS OVER NOW, IT'S TIME FOR AN EQUITY BINGE

The stock market's recent decline has some companies rushing to buy back their stock, but other companies may soon be issuing new stock. To undo the damage from the debt binge of the 1980s, U. S. corporations could raise from $25 billion to $50 billion annually in equity over the next five years, says Robert M. Giordano, director of economic research at Goldman Sachs & Co.

In the 1980s, easy access to credit, a long economic expansion, and undervaluation of corporate assets spurred the boom in debt-financed deals. By 1989 equity as a percentage of total capitalization had fallen to 52.5% from 65.5% in 1983. Today, lending standards are tighter, the expansion is weakening, and corporate assets aren't undervalued. Companies are devoting a record 50% of their cash flow to paying interest.

So companies need more equity. To keep equity capitalization ratios unchanged, companies would have to raise $25 billion a year from 1990 to 1995, $50 billion per year to restore equity positions to their historic trend of 57.7%, and $86 billion annually to raise the ratio to the level of 60.3% that prevailed in 19

With Christopher Farrell in New Yo

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SEPTEMBER 17, 1990

BY JAMES C. COOPER AND KATHLEEN MADIGAN

THE ECONOMY WAS WOUNDED BEFORE SADDAM TOSSED HIS GRENADE

Tensions in the Middle East are still running high—and so is the price of oil. But as the standoff drags on, it is becoming more evident that oil is not the only problem dimming the outlook for the U. S. economy.

Economic data in recent weeks have been far from heartwarming. And they mostly reflect the economy's performance before Iraq bullied its way into Kuwait on Aug. 2. Latest readings show that manufacturing's spring bounce had already gone flat in July (chart) and that construction was still losing ground. Add those to a heap of other indicators that were looking weak even before Saddam Hussein became a household name.

Now more than ever, consumers hold the key to the outlook. Yearly growth in real consumer spending had already fallen from 4.1% at the end of 1988 to 1.3% last quarter—a pace that is usually plumbed only immediately before or during a recession. Higher oil prices seem likely to push growth even lower.

Consumers have already registered grave concern over how the crisis might affect their future. On the heels of the free-fall in the Conference Board's index of consumer confidence in August, the index of consumer sentiment compiled by the University of Michigan likewise plummeted to its lowest level in seven years.

In light of those drops, the government's report on retail sales for August, due on Sept. 14, takes on added importance. It will be the first indicator of how the oil shock is affecting consumers at the checkout counter.

Car buying last month didn't suffer too badly. New domestically made cars sold at a 7.1 million annual rate late August, bringing the monthly pace to 6.9 million. That's down slightly from July's 7.1 million rate.

BARRING WAR, OIL PRICES MAY DROP

Clearly, oil has a special significance for both consumers and businesses. In the 1970s, it became a symbol of America's vulnerability, and oil prices still have a pervasive influence on economic decisions. But the impact of the 1990 oil shock may turn out to be more psychological than real.

Oil prices have jumped sharply—but nothing like 1973, when they went from $2 to $10 a barrel in a few months. Moreover, other oil-producing nations seem willing to help offset the shortfall from Iraq and Kuwait. And oil reserves are plentiful. Oil prices seem likely to fluctuate in the range of $25 to $30 a barrel in coming weeks. But barring war damage in Saudi Arabia, market forces will eventually push prices lower—perhaps sharply if the crisis is settled peacefully.

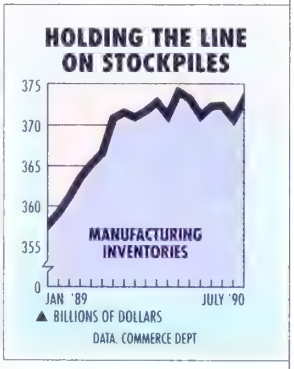
True, the price indexes in coming months will look disastrous. But faster inflation will stem from the temporary shock of supply shortages. The acceleration won't persist under current conditions of weak demand, slack capacity, and loosening labor markets. That means the inflation outlook for 1991 remains favorable.

Psychology has also been a key factor in the steep rise in long-term interest rates. But the current level—nearly 9% for 30-year Treasury bonds on Sept. 5—is not sustainable, given the economy's poor health and even poorer prognosis. If the economic data become weak enough to drive that point home in the bond market, which looks increasingly likely, the Federal Reserve Board could soon begin to ease monetary policy.

THINGS ARE SLACK AT THE FACTORY

To be sure, higher oil prices will squeeze economic growth, but that may not be the expansion's biggest problem. For starters, the pre-crisis slowdown in demand has already hit manufacturing.

Through July, factory orders had been stagnant for a year and a half, manufacturers had laid off some 350,000 workers, and companies had no incentive to build inventories. Factory stockpiles did rise 0.7% in July, to $373.3 billion, but their trend has been flat for a year (chart).



The outlook for manufacturing isn't promising. The pickup in the factory sector earlier this year was related more to the spring jump in auto production—up from unusually low levels last winter—than to any fundamental strength. The best indication of that is the relapse in the index of industrial activity compiled by the National Association of Purchasing Management (NAPM). It fell to 47.4% in July and dipped a bit further in August, to 47%. A reading below 50% implies that manufacturing is in a recession.

The NAPM also reported that August orders fell for the second consecutive month. Export orders continued to provide some support. Foreign demand, however, accounts for only about 11% of factory shipments.

With new orders sagging, many companies face a shrinking backlog of unfilled orders. Excluding the air-

craft industry, where order books are bulging, backlogs were flat in July and have been falling since early 1989.

Unquestionably, manufacturers are adjusting their inventories to the slowdown in demand a lot faster than they did before the proliferation of computerized inventory management. That may help them weather the next recession a lot better, but it won't prevent a downturn. In fact, with demand likely to stay soft in the second half, factories may have to trim jobs and output even further in order to keep inventories in balance.

BUILDERS LAY DOWN THEIR HAMMERS

Construction won't give the expansion much support in the second half, either. After adjusting for swings in the weather, building has gone nowhere for more than a year—the result of oversupply, tighter lending standards, and the sluggishness of the economy.

Now, the Middle East crisis adds even more gloom to the outlook. Higher long-term interest rates and further weakness in demand mean that construction companies will be hard-pressed to find business.

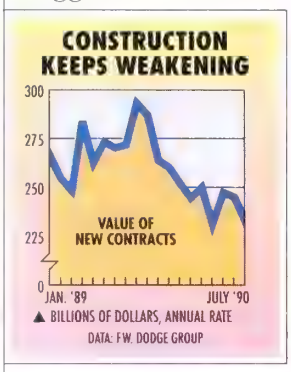
In July, construction spending did edge up 0.4%, to an annual rate of $442.2 billion, but this was the first increase since March. And after accounting for price changes, building outlays rose just 0.1% and have advanced a mere 1.1% over the past 12 months.

The July gain was concentrated in nonresidential construction, mainly spending on factory and other industrial facilities. Such outlays surged 9.2% in July. In fact, the industrial segment has been about the only source of strength for the building sector. Although it accounts for just 6% of private construction, spending on industrial projects has provided virtually all of the growth in construction outlays so far this year.

But even this bright spot may dim later this year. Slack domestic spending on goods has eased pressures on existing facilities in the industrial sector. Capital spending plans have already been scaled back in 1990, and with more capacity idle, manufacturers are unlikel to push for new building projects.

Spending on office construction heated up a bit in th summer, jumping 7.8% in June and a further 0.8% i July. But that followed a string of eight monthly d clines. So far this year, outlays for office buildings ar down 11.2% from the first seven months of 1989. An office construction is bound to cool off this fall. To much office space is already available, and banks hav cut off lending for speculative projects.

Meanwhile, residential construction—which is alread plumbing lows characteristic of past recessions—wi continue to be a drag on the economy. In July, spendin on homebuilding fell 0.4% and stood 3.2% below its lev of a year ago. Demand for new housing will remai sluggish for at least the rest of the year.



The oversupply of apartment is another problem for reside tial construction. Although th vacancy rate for rental uni has fallen from its 20-year pea in 1987, about 7% of these uni remain unoccupied. That's st too high to support much ne building.

The latest data on new co struction contracts also indica tough times ahead. Contrac have tumbled in recent months, including a 5.1% drop July (chart). For the first seven months of this yea contracts were down 8% from the same period of 198 That means builders cannot depend on much new d mand as old projects are finished.

The weakness in construction, manufacturing, ar consumer spending prior to the shock waves from th Persian Gulf is a stark reminder that many of the econ my's problems may still be around after the Middle Ea sands have settled.

THE WEEK AHEAD

PRODUCER PRICE INDEX

Friday, Sept. 14, 8:30 a.m.

Producer prices of finished goods probably soared 1.1% in August, according to economists surveyed by MMS International, a division of McGraw-Hill Inc. Prices had fallen 0.1% in July. The August surge will be led by skyrocketing fuel costs, a result of the Iraqi invasion of Kuwait. Excluding food and energy, producer prices probably rose just 0.3% last month, after also declining by 0.1% in July. The projected August increase would be the largest gain since January, when rising oil prices caused a 1.9% runup in producer prices. Energy costs, however, immediately fell back again in the following months. Such a downtrend is unlikely this time around, given the uncertainty of the gulf crisis. The August jump would push the wholesale inflation rate to a yearly pace of almost 5%, up from the mild 3.4% posted for the 12 months ended in July.

RETAIL SALES

Friday, Sept. 14, 8:30 a.m.

Retail sales were likely little changed in August. That's suggested by lackluster new car sales and rainy weather in the Northeast, which kept some consumers from shopping last month. In July, store sales increased a meek 0.1%. The weak showing expected for August means that third-quarter retail sales will fall below their second-quarter level, after adjusting for inflation.

INDUSTRIAL PRODUCTION

Friday, Sept. 14, 9:15 a.m.

The MMS consensus calls for no chan in industrial output in August. That f lows no growth in output at the natio factories, mines, and utilities in Ju Production may have declined la month, as indicated by a drop in t output index from the National Asso tion of Purchasing Management.

CAPACITY UTILIZATION

Friday, Sept. 14, 9:15 a.m.

The poor showing expected for indus al output suggests that capacity utili tion rates fell to about 83.2% in Augu from 83.4% in July. Most of the dec was probably in manufacturing.

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A B L E N D I N G O F A R T A N D M A C H I N E

THE IRAQ CRISIS

PASSING THE HAT FOR DESERT SHIELD

CAN THE U.S. TURN THE MISSION INTO A MODEL FOR FUTURE COOPERATION?

Secretary of State James A. Baker III calls it "responsibility sharing." A leading Saudi Arabian economist, wryly quoting Karl Marx, describes it as "From each according to his abilities, to each according to his needs." But at bottom, President Bush's "economic action plan" to spread the cost of military intervention in the Persian Gulf is simply a way of making a virtue of necessity. Constrained by a soaring budget deficit and a slowing economy, the U. S. is now turning to its allies for cash to stand down Saddam Hussein.

GEAR UP. Bush is asking that the gulf states, Germany, Japan, and South Korea kick in billions to help pay for Operation Desert Shield and to provide $10 billion for Egypt, Turkey, Jordan, and other nations suffering as a result of the U. S.-led embargo of Iraq. If this works, Desert Shield could become the model for large-scale, multilateral action. "It is dawning on [the allies that] in future crises, the U. S. may not be as massively involved as it has in the past," says former Deputy Secretary of State Helmut Sonnenfeldt. "They had better gear themselves to become more involved."

But the big question is whether the allies will come through with the cash. The super-rich Persian Gulf states, poised on the battlelines, are more than happy to give Uncle Sam a blank check. The oil-dependent industrialized nations are pitching in with aid for Egypt and other front-line states, plus matériel, troops, and support personnel. But some allies are less willing to foot the bill for U. S. military muscle (table).

In Tokyo, talk of burden sharing has triggered a new debate over whether Japan is willing to match its economic might with a more assertive foreign policy. Japan, says a senior government official, "is a military cripple." The Germans politely point out that they're already saddled with the costly burdens of reunification and the rebuilding of Eastern Europe. Smaller countries, including Belgium, Bangladesh, and the Netherlands, seem eager, but their contributions are necessarily modest. Others, such as South Korea, plead poverty.

The idea for what a senior Administration official calls a "war fund" was hatched in the tense days following Iraq's Aug. 2 invasion of Kuwait. At the second National Security Council meeting on the crisis, the President mused aloud about his desire to share the cost of any military intervention. While Bush paved the way with a series of pho calls to world leaders, Baker went work developing a formal burden-sha ing proposal. The scheme allows son allies to offer cash and matériel in lie of troops. Oil-rich Arab allies would pr vide both forces and money.

But even with Bush's personal a vance work, nailing down allied comm ments won't be easy. That's why t President has dispatched Baker a Treasury Secretary Nicholas F. Brady Europe, the Middle East, and Asia.

IMMORTAL SUPPORT. Burden sharing more important than ever because D sert Shield is starting to look like open-ended mission. On Sept. 4, Bak told the House Foreign Affairs Comm tee that the U. S. thinks a "regional s curity structure" in the Middle East necessary to contain Saddam over t long haul. That could keep a U. S. m tary presence in the region indefinitel

When it comes to the Soviet Uni now more midipower than superpow the U. S. wants neither money nor m tary support. Instead, when the Pre dent meets with Soviet leader Mikh Gorbachev in Helsinki on Sept. 9, h ask only for moral support for the int national quarantine of Iraq.

Baker, who'll be visiting Moscow a allied capitals, has no illusions abo

BURDEN SHARING: WHO'S CONTRIBUTING WHAT

U.S. $15 billion, the estimated first-year cost of the American military deployment in the Persian Gulf; forgiveness of $7 billion in Egyptian military debts and possible forgiveness of Israeli military debt; 32 ships and 50,000 troops

PERSIAN GULF STATES *Saudi Arabia, Kuwait, and the United Arab Emirates* $12 billion in estimated first-year economic aid and aid to the multinational forces; $180 million per month in jet and diesel fuel; Saudi army of 65,700 troops, 180 combat aircraft, 20 helicopters, and 550 tanks; services such as housing and food

JAPAN $1 billion for 100 medical specialists, food, water, equipment, ships, and planes; at least $1 billion in financial and economic assistance to Egypt, Turkey, and Jordan

GERMANY A possible $645 million, including $390 million in cash, the rest in miscellaneous supplies and services

BRITAIN 12 ships, 36 jet fighters, three radar planes, 30 support troops

FRANCE 8,500 troops, 14 ships, and one aircraft carrier

TURKEY 70,000 troops on the Iraqi border

EGYPT 2,200 troops now; may climb to 5,000

DATA: BW

SIGNING UP FOR THE SAUDI ARMY: BAKER'S PLAN CALLS FOR OIL-RICH ARAB ALLIES TO PROVIDE FORCES AND MONEY

ow hard it will be to turn the still-ague U. S. cost-sharing ideas into a con-ete plan. "The tricky part is how to anage it," says former Assistant De-nse Secretary Lawrence J. Korb. "Do untries send us a check every month?"

more tactful approach would be for ations such as Germany, Japan, and orea to offset U. S. costs indirectly, by ying more for U. S. troops stationed their soil. But such aid will barely ake a dent in the $6 billion bill for esert Shield the U. S. faces this year.

An even bigger problem for Bush is at the money is likely to come with rings attached. Allies, says Mark J. offman, an international relations spe-alist at the London School of Econom-s, "are hesitant to give the U. S. money nile allowing it unilateral say over how e forces will be used."

One possible means for international ntrol of the operation that would be ceptable to Washington is to turn the o over to NATO—which has always re-icted its military role to Europe and e Mediterranean. Indeed, British ime Minister Margaret Thatcher, Bush's staunchest ally, is pressing for just such an expanded mission. "NATO simply must be prepared to do some out-of-area defense," she declared. But few of her NATO colleagues have much enthusiasm for the idea.

IMAGE PROBLEMS. And even if Bush can devise a structure for managing a multinational funding of Desert Shield, pitfalls remain. Republican political analyst Kevin Phillips says that the U. S. "you buy, I'll fly" foreign policy makes American troops appear mercenary. "We're starting to look like latter-day Hessians," Phillips contends, raising the prospect that "the world can hire Americans to do the job that boys from Stuttgart and Kobe don't have to do."

That's not entirely fair, because the U. S., after World War II, wrote strict curbs on the use of military force into the German and Japanese constitutions. So far, Japan has pledged $1 billion worth of medical specialists, food, equipment, and transport, plus at least another billion in aid to Egypt, Turkey, and Jordan. Germany is discussing $645 million in cash, supplies, and services.

But appearances count, especially in the Mideast, where anti-Americanism always seethes. Says Seizaburo Sato, a professor at Tokyo University: "The U. S. shouldn't be singled out in the gulf. It's important for all countries to lend their support."

In some ways, the pressure for burden sharing just extends the long-standing U. S. goal of prodding NATO partners to pay a bigger chunk of the alliance's costs. The Administration knows how difficult it will be to get the allies on board. But Bush really has no choice. Although the public backs U. S. intervention, Congress is growing edgy about the cost: "There are a lot of complaints out there from constituents that the U. S. is carrying all of the burden," says House Middle East subcommittee Chairman Lee H. Hamilton (D-Ind). Unchecked, that sentiment "could threaten the domestic consensus" for Bush's muscular diplomacy.

By Douglas Harbrecht and Amy Borrus in Washington, with John Rossant in Riyadh, Robert Neff in Tokyo, Mark Maremont in London, and bureau reports

■ THE IRAQ CRISIS

IRAQ MAY NOT STARVE, BUT ITS INDUSTRY WILL

Our man in Baghdad watches the country's dream of industrial might collapse

As the intense 105F heat of a Baghdad summer day begins to fade, they drift into the bar in ones and twos, drinking round after round of beer from unlabeled green and brown bottles. After a while the backslapping stops, and the talk turns wistfully to wives and children back home in the West. The only constant: jokes about the ineptness of Iraqi engineers.

These men are hostages—"guests" as Iraqi President Saddam Hussein calls them. Many engineers and other experts working on at least $15 billion worth of Iraqi megaprojects are hiding in Western embassies, fearful that they might be carted off to military sites to serve as human shields. Others, such as the group at the bar, are still working—but probably not for long. One Western engineer at a major chemical plant near Baghdad estimates that his project will "come to a grinding halt in four or five weeks" because of a lack of imported equipment.

MOTHBALLED. While it's still early in what could become a long waiting game, it's clear that the international embargo against Iraq will have a much greater impact than simply creating shortages of imported foodstuffs. Iraq's quest to become a regional industrial power has hit a brick wall. Although some food is trickling in from Jordan, Yemen, and other countries, major capital equipment is unlikely to slip through the net. Financing has dried up. Dams, petrochemical and fertilizer projects, power-generation facilities, water-treatment plants, and other projects essential to Iraq's transformation from an oil producer to a modern industrial state are likely to be mothballed or turn into half-built white elephants.

Iraq's oil industry is also threatened. With production down to a mere 600,000 barrels a day from a high of about 3.5 million barrels, fields may be damaged by low output and lack of maintenance. At least five oil-field development projects and a $500 million loading terminal were in the negotiating stage when Iraq invaded Kuwait, and West Germany's Mannesmann had a $200 million deal for equipment to develop the Saddam oil field in the President's hometown of Tikrit. Now, all that's on hold. "The Iraqis are saying good-bye to their future prospects for the next 10 years," says a Western diplomat in Baghdad.

Although many Iraqis are convinced they can live through an international squeeze by reverting to diets of home grown fruits and vegetables—and th newspapers are full of how-to articles o home gardening—the embargo is likel to hit the prosperous merchant class d rectly in the wallet. Iraqi chicken farm ers will run out of the pelletized foo they once imported. Hotel operator wonder who will service their air-cond tioning and elevator systems.

New sources of water and electricit have also been cut off. The Al-Shima power station isn't getting the four 35 megawatt steam turbines that Norther Engineering Industries PLC had contrac ed to supply for $143 million, and Mitsu bishi Heavy Industries Ltd. has suspend ed work on a big hydroelectric plan The Turkish and Yugoslav con panies that, with advice fro Bechtel Group Inc., were build ing the $2.5 billion Bakhma da in northern Iraq have laid dow their tools, stalling the country biggest irrigation project. Man smaller deals, such as a $9.5 mi lion water-treatment plant bein built by Ionics Inc. of Massach setts, also stand unfinished.

DIRECT HIT. The heart of Iraq industrial strategy had been t move downstream from oil int big-scale petrochemical and fe tilizer production. One linchp was the $1 billion Central Refi ery. That was designed to pr duce feedstocks for a $2.5 billio project called Petrochemic Complex 2, which was to produ 21 different products. But eng neers from Bechtel, the constru tion manager for that projec are in hiding, and ABB Lummu Crest Inc. has halted its eng neering and design work as we Japanese and South Korean co panies have withdrawn their pe sonnel from similar sites.

Widespread industrial disru tions won't affect Iraq's abili to get along for some time. B they'll score a direct hit on t elite supporters of Saddam wh control the economy and ho

■ MARTYR'S STATUES: PROPAGANDA IS CRUCIAL TO SADDAM

BURGER JOINT IN MANSOOR: BASICS SUCH AS SUGAR AND RICE ARE BEING RATIONED, WHILE PRICES OF MEAT AND *HUMMUS* HAVE DOUBLED

y positions in the security forces and e army. During eight years of war ith Iran, Saddam's allies in business t big on industrialization and bought state companies whose shares dou- ed and tripled. Privatization "improved ality a lot," says Ibrahim Karaghouli, anaging director of Ishtar Co., which ok over the local Sheraton Hotel from e government in 1989. Now, many of ose investments could be wiped out.

To retain support, Saddam is stepping intimidation and propaganda while shing out what remains of consumer ods to the stores. Diplomats in Bagh- d believe the government may have ent $2 billion to $3 billion from hidden nds to stockpile consumer imports ear- r this year, and that many items, such video games, tricycles, and audio es, are still available to distribute.

The ruthless character of the re- ne—well known for executing its op- nents—will also help Saddam as Iraq ads into tough times. "The President hold out for a long time and squeeze ple because the power structure is so ong," says one Western diplomat in besieged embassy. "If someone is satisfied, he will disappear."

The President's pan-Arabist Ba'ath So- list Party, with an elite membership roughly 30,000 and perhaps 1 million nerents in all, is also well-entrenched throughout the country, and its loyalists are working overtime to convince the Iraqi people that enormous prosperity is in store once the Americans leave the region. Iraqi television on Sept. 1, for example, carried a long interview with Deputy Prime Minister Sa-doun Hammadi telling Iraqis that the annexation of the "province" of Kuwait means that Iraq's oil can earn as much as $46 billion a year at a price of $30 a barrel. At that rate, Hammadi said, Iraq could easily pay off its estimated $60 billion in debt. He neglected to mention that embargoed Iraq cannot sell its oil.

BREADLINES. For now, only some food, such as sugar, tea, rice, and baby food, is being rationed, but cooking oil, beans, milk, soap, and detergent are running low, too. Bakeries have been instructed to make only coarse brown bread and limit sales to three small loaves per person, and Baghdad is already full of long breadlines. While shops have plenty of fruits and vegetables on hand from the harvest, prices of some items, such as meat and *hummus*, the staple chick-pea spread, have doubled.

But the Iraqis are inveterate hoarders, and that may cushion them. The harvest will bring in an additional three months' supply of wheat, and Iraq has 150 transport planes that can supply modest amounts of imported food and parts. Although no one has reliable numbers for a country that has not published credible economic statistics since 1977, the best estimate is that the Iraqis have stocks for 70 to 120 days of basic foods on hand, including such supplies as juicy red Chilean apples taken from Kuwait.

High morale among the masses will also strengthen Saddam's hand. Along the banks of the Tigris, Iraqis sipping sweet tea in the evening seem rather proud of confronting a superpower. "We want respect like America has, so that we can be a big power in the region," says a burly ex-military man named Ali as he plays dominoes in an outdoor cafe.

But few on the streets yet know how different this conflict is from their war against Iran. Then, they enjoyed major financial and technological help from gulf Arabs, Western nations, the Soviet Union, Brazil, Japan, Korea, and other Asian nations. Although a handful of countries are now willing to help Iraq, Saddam's taking of hostages means that the vast majority of foreign companies will be reluctant to send engineers and technicans back to Iraq. Western governments will be far less inclined to offer generous credits and loans. Much of the world once stood behind Saddam. Now, increasingly, he stands alone.

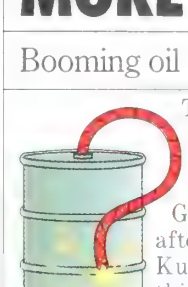
By Stanley Reed in Baghdad, with bureau reports

■ SAUDI REFINERY: THE PUSH IS ON TO HIKE PRODUCTION TO 10 MILLION BARRELS A DAY

■ THE IRAQ CRISIS

THE STORM CLOUDS RAIN MORE BILLIONS ON THE SAUDIS

Booming oil output puts Riyadh at the energy center of the world



The way the locals tell it in Jubail, Saudi Arabia's vast industrial city on the Persian Gulf, the first few days after the Iraqi invasion of Kuwait almost brought things down. Rumors whipped about, and productivity crumbled. Some Japanese managers and their families took off so fast that they left doors unlocked.

Today, the oil and petrochemical industries that are the kingdom's lifeblood are set to boom—barring, of course, serious damage to its facilities if today's standoff turns into war. And what's unfolding is much more than a boost in production of some 2 million barrels a day, to 7.5 million, to offset about half the oil lost from Kuwait and Iraq. Protected by American F-15s, the Saudis say higher levels are here to stay. A 10-year program by Saudi Aramco, the national oil company, to hike oil output to 10 million barrels a day is likely to be telescoped into four years.

That, plus moves to boost its petrochemical businesses, will put Riyadh squarely back at the energy epicenter of the world. Only last July, at a meeting of OPEC, the Saudis had to cave in to Iraq's demands for an immediate price increase. Now, Riyadh's new production clout should allow it to call the shots. "Crisis or no crisis," says Pierre Terzian, a Paris-based oil consultant, "the Saudis are going to be producing very close to 10 million barrels a day going out about as far as you can see."

Saudi Arabia, with 255 billion barrels of oil reserves, has the resources—and the will. In the early 1980s, the Saudi share of OPEC output fell, while other members overproduced (chart). That ended in 1985, when the Saudis raised their own output, notes Daniel Yergin of Cambridge Energy Research Associates. Until recently, they trod softly—in part because Iraq has warned against overproduction. But Operation Desert Shield changes things. Says one Saudi royal family member: "Our installations are well protected against the Iraqis now."

The 50% boost in oil prices since Au 2, from $20 a barrel to almost $30, al helps. As output rises, Saudi oil incon this year could hit $45 billion—$20 billi more than last year. If these prices pe sist through 1991, government revenu could balloon to more than $65 billion.

Some of that cash seems bound f Aramco. Last year, the Saudis launch a 10-year, $15 billion effort to push dai capacity to 10 million barrels. Doing th in four years could double Aramco 1991 budget, to about $8 billion. But should pay off. Saudi officials say th in a few years, they will produce close half of OPEC's output. "Say peace breal out tomorrow," says one Western dipl mat in Riyadh, "the Iraqis won't be ab to increase their oil production for a lo time, since they have no money and friends. Kuwait will take a long time get back to where it was."

'CASH COW.' Higher oil prices should al boost Saudi Basic Industries Cor (SABIC). Last year, the Riyadh petr chemical giant, which is 70% owned the Saudi government, reported a net $963 million on revenues of $3.6 billio Now, with Iraqi and Kuwaiti rivals least temporarily out of action, thin only stand to get better. SABIC and Sh Oil Co. own a $3 billion ethylene plant Jubail. The joint venture, Saudi Petr chemical Co., has a long-term contra with Aramco to buy gas feedstock for mere 50¢ per million Btus. At a simil Shell plant in Deer Park, Tex., su feedstock runs 600% higher. Says Petr chemical President Abdallah A. Al-A saf: "You talk about a cash cow. We the lowest-cost producer in the world."

Because feedstock prices inevitab trail crude prices up, SABIC's edge c only increase at its 13 gas-fed pet chemical ventures in Jubail and its R Sea-coast sister city, Yanbu. SABIC C Ibrahim A. Ibn Salamah says he'll u some of the profits to expand in Euro and the U. S. In years, "SABIC shou have about 20% to 3 of its production outs Saudi Arabia."

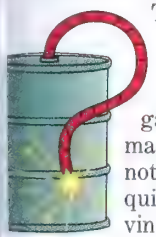
Ibn Salamah den that the threat of w will dampen SABIC mestically. He says th the long Iran-Iraq w "taught us to live w problems in the gul If that's so, the Sau may discover a sil lining to the clo called Saddam.

By John Rossant/n Jubail

THE IRAQ CRISIS

WHERE WAR NEWS IS GOOD NEWS

At the Farnborough air show, gulf tensions are a call to arms



The description might fit a Savile Row suit: "soft, comfortable, easy to wear." But the garment in question is made of vulcanized rubber, not tweed, and the mannequin sports a gas mask. Irvin Aerospace Ltd.'s latest chemical-warfare outfit is making its debut at Britain's huge Farnborough international air show, and the crowds that showed up at this airfield 35 miles southwest of London are showing unexpected interest. "We're already out of brochures," says a harried salesman on the show's first full day.

In most circles, the tense military face-off in the Persian Gulf is cause for anxiety. But for the world's arms merchants, it's a dream come true. Just a few weeks ago, Western defense contractors had been expecting to gather at Farnborough—the year's biggest display of military and civil aviation hardware—to commiserate. But talk of peace dividends has evaporated, and the mood at the early-September fair is cautiously optimistic. "This shows we can't be too busy just because the Wall is down and the Russians are acting friendly," says Irving L. Burrows, a McDonnell Douglas Corp. executive vice-president. "There are other threats." The Bush Administration seems to agree: It's about to ask Congress for $8 billion to $10 billion in new arms sales to foreign buyers, mainly in the Middle East.

INFLEXIBLE FLYERS. The threat most discussed at the show's lavish private chalets is Iraq's army but Congress. Each company is using the gulf crisis as an argument for sparing its favorite weapons system from the budgetary ax. Production of the McDonnell Douglas F-15 fighter is set to end in 1993. But McDonnell's Burrows says it's just the beginning for the post-cold-war age. "You're going to need more flexible forces in the new environment," Burrows says, revving up his spiel. McDonnell's F-15 and F-18 fighters "are multimission planes that best fit the need," he adds. At the very least, he hopes the Saudis will get more than the 36 planes the Administration and Congress recently approved.

Over at the General Dynamics Corp. cocktail party, W. H. "Moon" Mullins plugs his company's heavy-duty M1 tank, now scheduled to go out of production in 1993. "Heavy armor is what you need when the chips are down," says Mullins, GD's vice-president for government relations. Never mind critics who point out that the M1 was too heavy to be airlifted to Saudi Arabia. Mullins would rather boast that the tanks are "NBC-capable"—resistant to nuclear, biological, and chemical weapons.

General Dynamics already is benefiting from the tension in the Middle East. Congress is likely to wave through long-delayed sales of its F-16 fighters to Turkey and Egypt. And Saudi Arabia has already asked to add 385 M1 tanks to the 315 it has on order.

Some companies at Farnborough are a bit reluctant to talk about their Middle East clients. Perhaps understandably. France's Dassault Aviation sold Mirage fighters to Iraq, and a spokeswoman says the situation is too "political" to discuss. Fellow French contractor Aerospatiale supplied Iraq's air force with Exocet missiles, which could be used to sink U. S. or other Western ships. An Aerospatiale salesman, interrupted while playing with a simulator for a new antitank missile system, refuses to explain the Exocet's capabilities. He goes back to blowing up the armored targets.

A high-level official at Mikoyan, designer of the Soviet MiG-29, is slightly more talkative. Iraq's possession of the potent fighters, he says, "is not a good thing." Sitting at a plain wooden table in the sparsely furnished Soviet chalet on the fringes of the show, he vows the Soviets will be more careful in their choice of customers. "Iraq's aggression has put the final seal on sales to this country." But not too careful. "We are in negotiations with several countries that want to buy it," the designer says, but he won't name any.

LIVE TEST? The threat of a gulf war is a morale-booster for armaments executives, who haven't had a good live test of their gear in years. Paul F. Martin, program manager for Lockheed Corp.'s F-117 Stealth fighter, is almost itching to see how his craft performs in real combat. "Iraq has put a lot of money into its air defense," he says. "It's similar to some parts of the Soviet defense system." Despite reports that the F-117 missed its targets in Panama, Martin is optimistic about its potential in Iraq. "I have no doubt [the F-117] can penetrate such a dense environment and destroy the threat."

For all their upbeat talk, nobody at Farnborough expects U. S. or other NATO defense budgets to go up. Rather, a slowly shrinking pile of money is likely to be redistributed, with a bigger share going to conventional weapons and to such mundane areas as transport, while high-technology nuclear-warhead delivery systems are shelved or delayed. Still, the feeling around Farnborough is that those rumors of peace may turn out to be greatly exaggerated.

By Mark Maremont in Farnborough

KICKING TIRES AT FARNBOROUGH: THE TALK OF PEACE DIVIDENDS HAS EVAPORATED

DAVID LEVENSON

CAPITOL HILL

CONGRESS CAN'T GET ITS MIND OFF THE DRAMA IN THE DESERT

With time running short, a bunch of major bills may die

For most Americans, the Persian Gulf crisis has only meant paying a few cents extra per gallon at the gasoline pump. But the desert drama could have a big impact on millions of low-income families who need help paying for child care, residents of housing projects hoping to move to a new home, and government workers wondering if they'll have jobs when the fiscal year ends Sept. 30.

As the lawmakers trickle back from a monthlong recess, their attention is focused on issues raised by the Mideast turmoil: paying the cost of the huge military buildup in Saudi Arabia, the proposed forgiveness of $7 billion owed by Egypt, and Administration plans to sell billions of dollars' worth of sophisticated arms to countries in the volatile region.

As a result, there will be little time to mount the effort that usually produces a flurry of laws in the final days of a session. Says Burton Yale Pines, a Heritage Foundation official: "The gulf crisis is going to freeze congressional action." Among the potential casualties are a new child care program for the working poor, expanded low-income housing, and a measure to clean up loophole-ridden campaign-finance laws.

Much of the three weeks remaining before the scheduled Oct. 5 adjournment will be devoted to the budget. Congress and the White House have set a Sept. 10 deadline for the completion of deficit-reduction talks, to be held in the seclusion of Andrews Air Force Base outside Washington.

TOP PRIORITIES. But the bargainers could miss their self-imposed deadline, because Bush and key aides will be abroad for a Sept. 9 meeting with Soviet President Mikhail Gorbachev in Helsinki. And even if a deal is cut, Congress will use up precious days debating the energy and excise-tax increases and the spending cuts that are likely to be called for in the budget blueprint.

With the days dwindling, the Democratic leadership will be highly selective about which measures make the cut. Their top priorities include a rewrite of the Clean Air Act, civil rights legislation, the child care measure, and a five-year farm bill. The clean-air bill, which imposes stiff new controls on pollution from autos, power plants, and factories, has the best chance: It's a top priority of both the Administration and Senate Majority Leader George J. Mitchell (D-Me.). But the Iraqi crisis has given business lobbyists one last shot. The legislation relies on alternative fuels to reduce auto emissions, and the oil industry argu that this is no time to raise the costs driving. "We hope that the result of cent events is that we get a broa hearing" on clean air, says Terry F. sie, a vice-president of the American troleum Institute.

CONVERGING INTERESTS. The child c bill, which would expand tax credits the working poor, faces a less cert future. Bush objected to the cost of e lier versions, but now, White Ho Chief of Staff John H. Sununu has i cated that the President could accept vised legislation that holds the cost $15 billion over five years. House-Sen conferees are close to agreeing on s a measure. "The right mix is there fo compromise," says Jerry D. Klepr lobbyist for the American Federation State, County & Municipal Employe After 18 months of deadlock, others not as optimistic.

The converging political interests the White House and Hill Democr could save a civil rights bill that wo overturn several 1989 Supreme Court cisions that narrowed the right to over job discrimination. Prolonged ne tiations between Congress and the ministration collapsed over the sum but now are back on track. GOP cons vatives would like to sink the bill, insiders say Sununu has decided t passage would be a plus for Bus "kinder, gentler" image—and might a few Republican candidates to vict in tight races this fall.

A major victim of the time crunch be the effort to limit campaign spend and restrict the role of political ac committees in congressional electi The House and Senate have passed v different bills, neither of which is acc able to Bush. With the slowing econo and the Iraq crisis injecting new un tainty into the campaign, lawmakers more reluctant than ever to cut t PAC lifeline.

If lawmakers end up with a few pieces of domestic legislation and a m mal budget deal, it won't be a glori conclusion to the 101st Congress. then, the 101st has been sour from beginning. It was marked by a na fight over a pay raise, the resignati of House Speaker Jim Wright (D-T and Majority Leader Tony Coelho Calif.), endless recriminations over savings and loan debacle, and a sens impotence caused by the inability override any of Bush's 13 vetoes. V that kind of record, no one should surprised if Congress slinks away a doing the minimum—and lobs many the nation's pressing problems into 1

By Paula Dwyer, with Vicky Caha Washington

When the city of Los Angeles wanted to give more power to the people, who did they turn to?

ABB invented and pioneered the first High Voltage Direct Current (HVDC) system; an advanced method of transmitting electric power over long distances.

The Pacific HVDC Intertie, for which ABB designed and constructed converter stations, is one of the largest power transmission systems in the world. It carries power between the Bonneville Power Administration and several Southern California utilities, helping make more efficient use of the Pacific Northwest's power surplus. In summer, Californians get the electricity they need for their air conditioners. And on cold winter days, consumers in the Northwest can get extra power for heating.

When it comes to transmitting and distributing electric power, ABB offers as advanced and complete a line of products and services as any in the world: everything from the generating station to the meter on the home. That's why our T&D business segment has earned the trust of power producers all across America.

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THE SUPREME COURT

SOUTER'S OPPONENTS STILL DON'T HAVE HIM IN THEIR SIGHTS

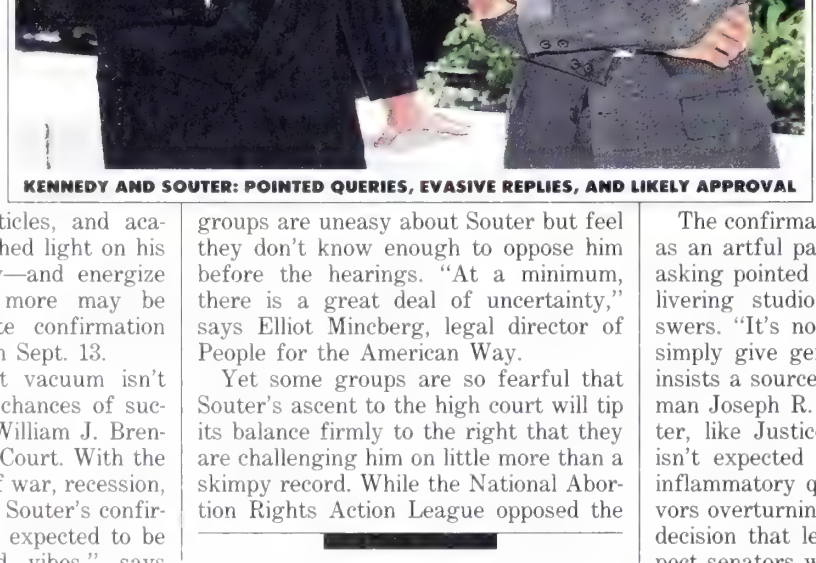
As hearings draw near, his skimpy record is working in his favor

In the six weeks since President Bush nominated New Hampshire jurist David H. Souter for a seat on the U. S. Supreme Court, Washington's image makers have been busy. Liberals have sought to portray Souter as a rigid conservative, a reclusive scholar out of touch with the dilemmas of life in the 20th century. Conservatives, meanwhile, have painted Souter as an evenhanded judge unwilling to upset precedents—and a charming social host to boot. To dispel questions raised by the 50-year-old jurist's bachelorhood, former female companions have been trotted out to attest to the judge's lifestyle.

Yet after scouring Souter's record for the past month and a half, the truth is that nobody has a good idea where he stands on today's critical constitutional issues. The former New Hampshire Attorney General and state Supreme Court justice gets high marks: The American Bar Assn. on Sept. 4 gave Souter its highest rating. But he lacks the paper trail of legal briefs, journal articles, and academic work that could shed light on his constitutional philosophy—and energize opposition. Not much more may be known after his Senate confirmation hearings, set to begin on Sept. 13.

BACK BURNER. But that vacuum isn't likely to doom Souter's chances of succeeding retired Justice William J. Brennan Jr. on the Supreme Court. With the capital abuzz with talk of war, recession, and stalled budget talks, Souter's confirmation hearings are not expected to be explosive. "I get good vibes," says Thomas C. Korologos, a former White House aide who is helping Bush's lobbying effort. "We're on the fringe of war. I don't think the Senate is of a mind to kick the President in the groin."

Many potential opponents are holding their fire but less out of patriotism than a sense of puzzlement at how few legal footprints Souter has left. They don't have provocative opinions from Souter to feed friendly members of the Senate Judiciary Committee, a tactic that helped defeat Supreme Court nominee Robert H. Bork. All they can do is press liberals such as Senator Edward M. Kennedy (D-Mass.) to ask tough questions about Souter's stands on such issues as abortion, privacy, and criminal rights. Liberal groups are uneasy about Souter but feel they don't know enough to oppose him before the hearings. "At a minimum, there is a great deal of uncertainty," says Elliot Mincberg, legal director of People for the American Way.



KENNEDY AND SOUTER: POINTED QUERIES, EVASIVE REPLIES, AND LIKELY APPROVAL

Yet some groups are so fearful that Souter's ascent to the high court will tip its balance firmly to the right that they are challenging him on little more than a skimpy record. While the National Abortion Rights Action League opposed the Reagan Administration's abortion "l mus test" for judicial nominees, it is no resorting to the same tactic. The Re ganites wanted strong anti-abortio court appointees. Now, NARAL Executi Director Kate Michelman says her grou cannot support a nominee who doesn "openly recognize the fundamental co stitutional right to privacy, which i cludes the right to choose."

RESERVE TROOPS. That stance cou damage opponents' credibility. And M chelman realizes that with the Midea crisis, it will be difficult just getting pe ple to pay attention. "There's no que tion this is an uphill battle," she says

The sotto-voce atmosphere surroun ing the nomination plays directly in the White House's hands. By choosing "stealth" candidate and by telling righ wingers that Bush nominee next tin around is likely to more to their taste, t Administration is ho ing to slip Sout through in time for t court's October ter Should the hearin turn against them, ho ever, White House of cials will have their ov troops to call on. "If t opposition is heavy a serious, there will be number of groups co ing out very strongl for Souter, says Ja Yelverton, executive rector of the Natio al District Attorne Assn. Law enforceme officials are among t judge's strongest su porters because of tough anticrime reco

The confirmation hearings may end as an artful pas de deux, with senato asking pointed questions and Souter livering studiously unenlightening swers. "It's not going to be enough simply give general kinds of answer insists a source close to Judiciary Cha man Joseph R. Biden (D-Del.). But S ter, like Justice Anthony M. Kenne isn't expected to answer directly su inflammatory queries as whether he vors overturning *Roe vs. Wade*, the 1 decision that legalized abortion. "I s pect senators will ask lots more spec questions than he will be prepared answer," says Yale Law School prof sor Paul Gewirtz.

The key question is whether senat will reject a nominee just because th don't know enough about him. The ea betting is they won't.

By Tim Smart in Washing

> Law enforcement officials are among Souter's strongest supporters because he is tough on crime

When Kansas Power and Light wanted to make sure the Great Plains stayed great, who did they turn to?

All across America, ABB is building systems to protect our environment. Kansas Power and Light Company, for example, has relied on ABB for years to supply the systems that significantly reduce emissions linked to acid rain and which virtually eliminate airborne ash.

Other regional power producers like Montana-Dakota Utilities, Orlando Utilities Commission, and the City Public Service Board of San Antonio also look to ABB to supply them with advanced emission-control systems.

ABB equipment also removes paint solvents from process air exhaust in automotive plants, turning them into harmless gases. And ABB is involved in the clean up of toxic and medical wastes, and in the conversion of garbage into a valuable source of energy.

ABB is pioneering solutions to bridge the gap between the growing demand for energy and the need to actively protect our environment.

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THE ENVIRONMENT

MAINE HAS OUTLAWED THE BOXES, WHICH ARE MADE OF LAYERS OF PAPER, PLASTIC, AND FOIL

THE BIG BROUHAHA OVER THE LITTLE JUICE BOX

'Aseptic' cartons are wildly popular—but tough to recycle

Just a year ago, the palm-size "juice box" was a big winner. Food technologists so liked its safety and nutrition that they picked it over the microwave oven and frozen orange juice as the best technical achievement of the past 50 years. "It does whatever canned food does, only better," says Fergus M. Clydesdale, a University of Massachusetts food science professor and chairman of the industry panel that honored the "aseptic," or germ-free, box. Richer praise comes from parents: This year, they'll tuck an estimated $600 million worth of the juice boxes into their kids' lunches—up 12% from a year ago.

But you won't find the little boxes in Maine. The state's lawmakers banned the juice box, effective Sept. 1. Their aim: to stop the containers made of hard-to-separate paper, plastic, and foil from crowding the state's landfills. First approved 14 months ago, the law has other states such as Massachusetts and Rhode Island considering similar restrictions. In all, 10 states have requested information from Maine on the ban, and the prospect that it will spread has sent two manufacturers of paper and machinery for the boxes into high gear: They've launched a lobbying campaign budgeted at $3 million a year.

They figure to get plenty of support from beverage and food makers, which increasingly favor the box. The five layers of paper and plastic make for a lightweight yet sturdy container. And its sixth layer, a lining of aluminum foil, prevents light and oxygen from entering and spoiling food. Milk kept in these packages can stay fresh for five months without refrigeration. Parents like the boxes because they have no glass that could break or sharp edges that could cut. What's more, they're easy to store, and even toddlers, who otherwise would be drinking out of bottles that require tedious washing, can handle the little straws that come with each box.

KEY STATES. Trouble is, some recyclers complain that the same ultraslim layers that protect milk from spoiling make the box difficult to recycle. And that has made them a target in the battle to limit solid waste as landfills begin to overflow. In Rhode Island, for instance, 50% of every type of beverage container must be recycled by 1994 or face a ban. Massachusetts legislators also are mulling a similar recycling requirement. "The Northeast is the hardest hit by the solid waste crisis," says Resa A. Dimino of the Environmental Action Foundation in Washington, D. C. "The trends will spread."

What's serious for states is even more acutely disturbing to Tetra-Pak Inc. in Shelton, Conn., and Combibloc Inc. in Columbus, Ohio, two privately held companies that supply machinery and paper used to make the boxes. Together, the pair accounts for most of the 4 billion juice boxes expected to be used this year in the U. S. The two companies last year launched their lobbying effort to forestall any bans. "Maine took our package as a symbol of the throwaway society," laments Warren C. Tyler, president of Combibloc, the country's No. 2 supplier of the juice boxes. "There's a mistaken belief that a single-serving container uses more packaging," than, say, gallon-size glass or metal containers, Tyler says. He contends that the layered boxes leave less waste, measured by weight or volume.

But if Combibloc can't change that perception, the company's hopes to expand into packaging for microwave foods may never be realized. So besides lobbying, Combibloc and Tetra-Pak are out to persuade recyclers to toss empty juice boxes in with other plastics at recycling plants—despite the difficulty of separating the laminate.

PILOT PLANT. The suppliers believe that the layers don't have to be separated before the box can be recycled. To prove it, Tetra-Pak has financed a $1.6 million pilot plant in Mississauga, Ont., operated by Superwood Ltd., which recycles used plastics into wood substitutes. The suppliers also hope by the end of the year to line up school districts in nine states to begin collecting juice boxes in cafeterias and on playgrounds for recycling, says Edward A. Klein, a Tetra-Pak vice-president.

Juice companies aren't happy with Maine's juice box ban, but neither are they looking back. Ocean Spray Cranberries Inc., the Middleboro (Mass.) juice maker, is already shipping 10-ounce glass bottles to Maine to replace its juice boxes. Parents are another matter. Nancy Markgren, a Wells (Me.) mother of two boys who guzzle down juice from the little boxes, says she'll import juice boxes from out of state. "It's a foolish thing to outlaw," she complains. "I'll buy it when I visit my mother" in Massachusetts.

Tetra-Pak's Klein has his own plan for making sure that Maine doesn't soon forget the juice boxes. His first U. S. recycling project will involve a Long Island (N. Y.) company that makes plastic lobster traps and sells them to Mainers.

By Gary McWilliams in Boston

When Kodak wanted to make sure their film base was picture-perfect, who did they turn to?

ABB helps Kodak's Roll Coating Division ensure the film base for their photographic film is manufactured with the best quality. It's just one of many important companies that have placed their trust in ABB advanced process automation technology.

ABB control systems serve as manufacturing guides, monitoring and directing the flow and combination of materials throughout a production process. They assemble, interpret and coordinate the flow of information between production and other related disciplines within a company.

Because of the confidence shown in ABB by Kodak and other companies like Huntsman Chemical Corporation and Chevron Chemical, our process automation business has become the largest supplier of distributed control systems in the world.

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BANKRUPTCIES

AN EPITAPH FOR THE EPILADY?

Failed diversifications have plucked EPI bare

Marketing booms and busts don't get much more meteoric than this. Just last summer, EPI Products USA Inc. was promoting its personal care items with billboard advertisements of a nude woman displaying smooth silky thighs. This leggy Venus hovered over the Los Angeles freeways until complaints prompted her removal.

But such steamy images helped Santa Monica (Calif.)-based EPI parlay its original product, the Epilady leg-hair remover, into a mini-empire with sales of more than $200 million. Privately held EPI's founders, South African-born sisters Arlene, Sharon, and Loren Krok, started appearing in glamorous photo spreads alongside magazine stories praising their marketing wizardry.

WILD GROWTH. Then, suddenly, it was over. On Aug. 23, EPI filed for Chapter 11 bankruptcy in New York. The Kroks declined requests for an interview, but court papers show the company had $77 million in liabilities and just $73 million in assets. EPI filed Chapter 11 after Bank of New York and other lenders sued it, cutting off credit and seeking collection on $24 million in loans. EPI's projected cash flow for the crucial month of September, when vendors start shipping for the fall season, is a negative $2.1 million. Another risk looms: Mepro, the Israeli maker of Epilady, is suing EPI to stop its distribution of the device.

EPI's demise illustrates the perils that threaten any single-product company that tries to grow too fast. In 1987, the Epiladies' father, wealthy Johannesburg pharmaceuticals entrepreneur Solomon Krok, bought rights to the hair-removal appliance from the kibbutz that owns Mepro. Krok turned the rights over to his daughters, who launched Epilady at tony Bloomingdale's. By promising heavy promotion and sales support, EPI persuaded Bloomie's and other upscale retailers to sell Epilady in its heavily trafficked cosmetics department instead of the sleepy appliance section.

Then, Remington Products Inc. and other manufacturers began selling rival products. EPI countered with a $40 version of the Epilady aimed at mass-market retailers such as K mart and J. C. Penney. To hang onto department store customers, it added a deluxe, three-speed $89 model.

> EPI moved into toothpaste, minisaunas —even a device to help motorists with flat tires

Sales grew—but then again, so did returns. The Krok sisters had overestimated the ongoing demand for Epilady, a one-time purchase for most customers. There just wasn't a big enough market to sustain the expensive national ad campaigns. Pain also played a part. Consumers found out that Epilady, whose rotating coils yank hairs out by the roots, was uncomfortable to use: Comedienne Joan Rivers even cracked jokes about the pain of an Epilady. Yet, says Remington sales manager Bruce Gold: "They were totally dependent on that product to survive."

EPI had tried to diversify. After Epilady's first splash, it introduced a minisauna, a footbath, skin lotions, and $12 tubes of toothpaste. But none had the novelty or the broad appeal of the Epilady, and all had large, established competitors. EPI thought its brand name could sell nearly anything, according to New York cosmetics marketing consultant Allan Mottus: "But you can't take a name and extend it from footbaths to products for shining your teeth."

ST. LOUIS BLUES. Some unrelated ventures fared even worse. The company lost some $7 million last year producing a Broadway musical, *Meet Me in St. Louis*. But most disastrous was EPI's $14 million investment in Quickwheel, a skateboard-like contraption to aid motorists with flat tires. It didn't work as expected. "They just went over board," observes Bernard Frank, a Miami inventor who sold EPI the rights to his minisauna.

EPI now has new operating executives from GDL Management, a firm of turnaround specialists that has helped reorganize the likes of Coleco and Eagle Clothes. Geoffrey D. Lurie, EPI's new chief executive officer, says the likely plan is to prune back EPI. The toothwhitener EpiSmile and fancy toothbrush EpiDent "will be our standard-bearers going forward," he says.

Meanwhile, the Krok sisters will keep handling the company's marketing while GDL scrambles to line up the financing it needs to ship EPI products for the all-important Christmas season. Lurie also says he is confident EPI will prevail in its dispute with Mepro. But after the ravages of recent failures, getting a leg up on the competition again could take years.

By Kathleen Kerwin in Los Angeles

THREE'S COMPANY: EPI PRODUCTS FOUNDERS LOREN, ARLENE, AND SHARON KROK

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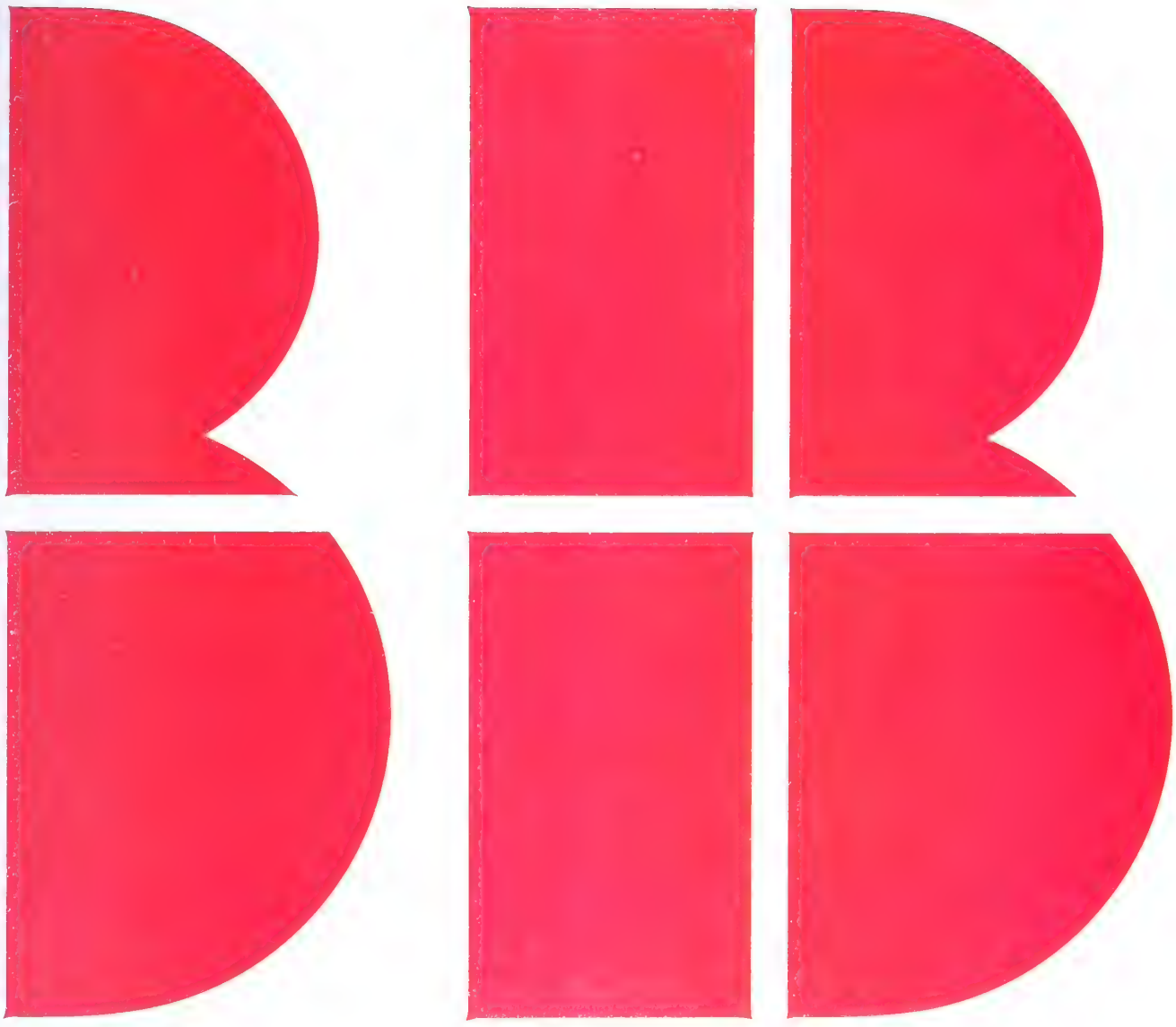

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In Business This Week

EDITED BY HARRIS COLLINGWOOD

FUJITSU AND IBM GO HEAD TO HEAD

▶ Conventional wisdom says the mainframe is nearly extinct, thanks to the influx of powerful and cheaper computers such as workstations. So why are the world's two largest computer companies loudly trumpeting new lines of the mammoth machines?

Fujitsu beat IBM to the punch on Sept. 4. The company announced five new mainframes, dubbed the M-1800 group, that are up to nine times as fast as the Fujitsu machines they replace. The company says it expects to sell about 300 M-1800s over the next three years.

IBM countered the next day with the Enterprise System/9000. The most powerful of the 18 new models will run almost twice as fast as older IBM mainframes.

The IBM and Fujitsu machines haven't been compared head to head. But both companies are positioning themselves to grab a bigger share of the mainframe market.

GTE SWITCHES OFF ITS THORN EMI PLANS

▶ GTE has canned a bid to build its global lighting business. On Sept. 3, GTE officials said they had suspended talks that were aimed at buying Thorn EMI's Europe-based lighting operations.

GTE management may just be too busy to cut a deal with Thorn. GTE recently agreed to acquire cellular-phone giant Contel in a stock swap valued at as much as $6.2 billion. The deal, which catapults GTE into the No. 2 slot among cellular operators, has created a massive consolidation project.

TO SAVE ON GAS, DRIVE—A CADILLAC?

▶ With troops facing off in the Mideast, which auto maker will be making noise about the good gas mileage of its 1991 cars? Cadillac. As a Seville sweeps through a mountain curve on the screen, a new TV ad notes that it gets 26 miles per gallon on the highway, making the luxury car "as responsible to own as it is responsive to drive." The ads give Cadillac an opening to promote its new 4.9-liter V8 engine, which boosts power 10%, to 200hp, while raising fuel efficiency by 1 mpg.

For the record, the most fuel-efficient car sold in the U. S. isn't a Cadillac. Nor is it a Honda, Toyota, Nissan, or Hyundai. It's Chevrolet's Geo Metro XFi, which gets 58 mpg on the highway.

ENSIGN BANK HITS BACK AT UNCLE SAM . . .

▶ Miami billionaire Ted Arison is no fan of Uncle Sam's new get-tough approach to savings and loan regulation. The principal owner of Carnival Cruise Lines and pro basketball's Miami Heat suffered a costly loss on Aug. 31, when the Office of Thrift Supervision placed his New York-based Ensign Bank in receivership. The $1.78 billion bank didn't come close to meeting federal capital requirements and lost $34 million in the first six months of this year.

Ensign chief counsel James Dubin complains that the OTS no longer recognizes as capital $140 million in "supervisory goodwill." But back in 1983, when Arison first bought the bank, federal regulators said the goodwill was just fine. Arison on Sept. 5 sued the OTS for changing the rules in midgame.

. . . AND OTHER S&Ls MAY FOLLOW SUIT

▶ Arison can take heart from a Sept. 5 decision by U. S. District Court in Topeka, Kan., ordering the Office of Thrift Supervision to return Franklin Savings Assn. of Ottawa, Kan., to its former owners.

The OTS had seized the thrift in February, after disputing the way it accounted for futures contracts used to hedge some holdings. The regulators asserted that a correct accounting would show the S&L had not maintained required capital levels. The OTS is likely to appeal the ruling. Nonetheless, the district court's decision may encourage directors and officers of other seized thrifts to challenge the federal takeovers.

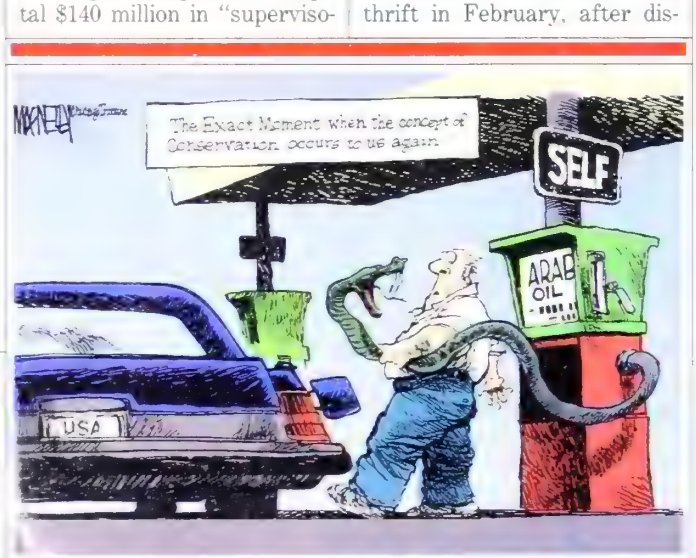
SPREADING THE GOSPEL ACCORDING TO YOU

Are your taxes too high? Does newspaper ink rub off on your hands? Are space aliens rummaging through your garbage again? Don't just stew—write a letter. Pick a publication, fire up your personal computer, and for a mere $49.95, Solicit Your Editor will do the rest, formatting and addressing your missive. To make sure you're heard far and wide, the software will send duplicates of your plaint, in seconds, to any of more than 1,000 newspapers and magazines.

Solicit Your Editor is the brainchild of Terry D. Lanyi, a former respiratory therapist who admits that, in his 42 years, he has actually penned just one letter to an editor. But his company, T-Lan Systems of Norridgewock, Me., is happy to help people stand up and be counted. As T-Lan's advertising puts it: "These days, it's not what you say but how loud you say it." Just ask any concerned citizen, politician, or 4-year-old.

A NEW HONCHO AT FIRST BOSTON

▶ Is John Hennessy under the gun? On Sept. 4, Archibald Cox Jr., son of the former Watergate special prosecutor, was named president and CEO of First Boston. Hennessy will continue as president and CEO of CS First Boston, the parent company of the beleaguered investment bank. But First Boston insiders are speculating that Crédit Suisse, the Swiss bank that owns 45% of CS First Boston, wants to keep closer tabs on Hennessy. First Boston denies the rumors, but many on Wall Street suspect that the privately held firm has been badly outperformed by its rivals. Cox was previously the longtime head of Morgan Stanley's European operations.



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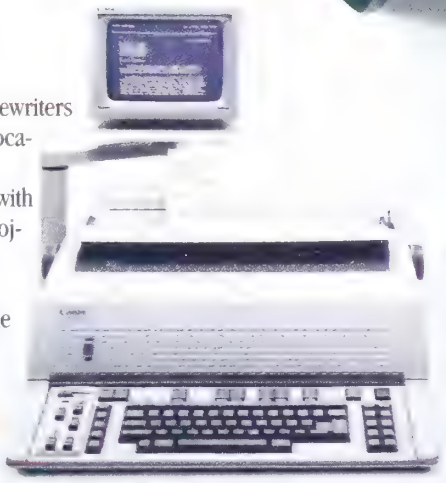

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THINK AGAIN. THINK CANON.

EDITED BY STEPHEN H. WILDSTROM

MONEY, POWER, AND NUMBERS: A FIRESTORM OVER THE CENSUS

The preliminary results of the 1990 census already are in. And mayors and governors whose numbers came up short are already screaming. The ensuing litigation could rag on for months, perhaps interfering with congressional eapportionment.

The census has long produced howls of "we wuz robbed." ut reports of widespread data-collection woes have made the mplaints more believable this year. And critics intensified eir complaints after the Census Bureau reported that its ough headcount of 245.8 million Americans fell more than 4 illion short of its own estimate.

For states and cities, the population ounts determine the distribution of feder- l aid as well as congressional representa- on. So the stakes are high. "The census volves money and political power," says emographer Carl Haub of the Population eference Bureau. "It doesn't take much incite people about the results."

New York City, for example, claims an crease of 15% since 1980, but the Census ureau found the population essentially nchanged. "This is unadulterated non- nse," fumes Mayor David N. Dinkins, ho is spearheading a court fight. In ouston, the figures show 200,000 fewer eople than the city's own projections.

DINKINS: NEW YORK WAS SHORTCHANGED

Such bad-news numbers are adding fuel to an ongoing legal allenge to the census. New York, Houston, Chicago, and her jurisdictions filed suit in 1987, seeking to force the overnment to change its methodology to compensate for an ndercount of minorities and the poor. In an attempt to settle e suit, the Commerce Dept. has agreed to decide by next ly 15 whether, and how, to adjust for the undercount. But s far from clear that changes will be made.

Timing is also a problem. By next July, most states expect have wrapped up reapportionment. Democrats, who hope at adjusted population figures will slow the shift of congressional seats to suburbs and the Sunbelt, may try to force the Commerce Dept. to decide earlier. Already, civil rights activists have filed suit in Illinois to move up the decision. The GOP will resist: "Republicans see much benefit in not adjusting," says Kimball W. Brace, president of Election Data Services Inc., which helps legislators draw up redistricting plans.

The chances that these legal challenges will succeed may be boosted by problems at the Census Bureau. Budget cuts during the 1980s hampered planning. The agency had trouble hiring enough enumerators. Many Americans never received questionnaires last March, and millions of others apparently tossed them out with the junk mail.

These woes are leading both demographers and politicians to seek alternatives to the decennial census, one of the federal activities explicitly required by the Constitution. "Adjusting for the undercount won't take care of all the problems," says Representative Thomas C. Sawyer (D-Ohio), chairman of the House census subcommittee. "We need systemic change."

JUST THE FACTS. In planning for the next census, government officials already are considering a stripped-down count. One idea is to ask all citizens for only the minimum information needed for reapportionment—age, sex, and race. Experts hope that the very simple form would produce a much better response rate. More detailed socioeconomic information could be gathered by a series of surveys, conducted in a number of geographic areas over 10 years. But such surveys would almost certainly bring howls from the businesses that use the pinpoint marketing information now provided by the census.

But making the 2000 census better will have to wait. Right now, the Census Bureau must fight a political and legal firestorm over the 1990 results. And early indications are that it will have a hard time persuading folks to accept its numbers.

By Susan B. Garland

APITAL WRAPUP

GOVERNORS

With fall campaigns beginning in earnest, the three most important gubernatorial races of 1990 all ook like fights to the finish. The last iece fell into place on Sept. 4, when ormer Senator Lawton Chiles beat Representative Bill Nelson for the Democratic nomination in Florida. But Chiles took a lot of punches in the primary, and polls show that his once-ommanding lead over incumbent GOP Governor Robert Martinez has shrunk o a seven-point spread. The tightest ace may be in California, where Democrat Dianne Feinstein and Senator Pete Wilson have both run hard-hitting campaigns. A recent *Los Angeles Times* poll shows them in a dead heat at 39% each. In Texas, Republican Clayton Williams remains the favorite, but State Treasurer Ann W. Richards remains within striking distance.

TAXES

It was only a trial balloon, but it sent some folks into the stratosphere. A coalition of states, cities, and public-employee unions is launching a TV ad campaign to derail a tentative Bush Administration plan to limit deductions for state and local taxes. A similar lobbying campaign killed an effort to end local-tax deductions under the 1986 Tax Reform Act.

BUREAUCRACY

In budget-speak, "Washington Monument cut" is when an agency tries to sidestep a proposed fund cut by offering to end a popular or vital service, such as closing the Washington Monument in tourist season. Such ploys have been widespread in the capital as the threat of automatic budget cuts looms. But the FBI has set a new standard: Rather than resort to temporary layoffs or cutbacks in hours for employees, the bureau says it would save $308 million by terminating 6,160 employees. Of course, the FBI warns, such staff cuts would cripple its ability to deal with Iraqi-inspired terrorism.

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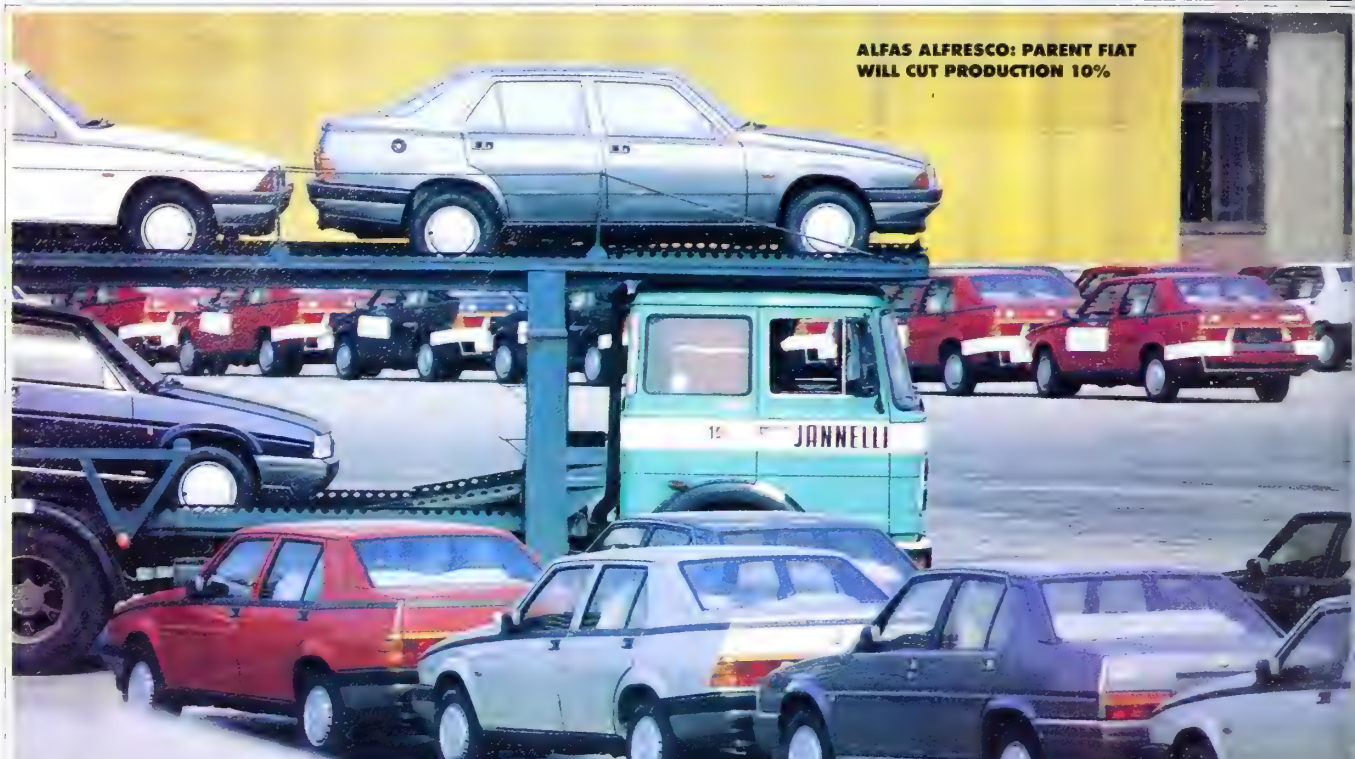


ALFAS ALFRESCO: PARENT FIAT WILL CUT PRODUCTION 10%

THE NASTY PILEUP IN EUROPE'S AUTO INDUSTRY

Stalled sales and overcapacity have dented the carmakers—and worse may be on the way

These are bargain days for car buyers in Europe. In Britain, Ford and General Motors are offering 12-month, interest-free financing. In the Netherlands, Peugeot has given out two free bicycles with the purchase of its 205 small sedan. In Spain, buyers of some Mercedes-Benz models get free Sony video cameras. And many new-car dealers are now willing to knock 5% to 10% off their sticker prices. Can Detroit-style cash rebates be far behind?

While old stuff to Americans, such tactics are extraordinary in Europe—and a clear sign that the $156 billion industry is scared. After five record years, the Continent's auto makers are running out of gas. A key indicator of European prosperity, auto sales were weakening even before Saddam Hussein invaded Kuwait and sent gasoline prices spiraling higher. Now, auto makers worry that shaken consumers will shift to smaller, lower-margin cars or not buy at all. "We're in for a tough period," says Kai Hammerich, senior vice-president of Saab Scania Group, where the auto unit is 50%-owned by GM.

Although analysts expect new-car sales in Europe to slip this year by just 3%, to 13 million units, auto makers already are feeling pain. Slumping demand, overcapacity, and cutthroat marketing are hammering profits. For Ford and GM, strong earnings from Europe have been one of the few bright spots. But with the exception of Volkswagen, net earnings of Europe's high-volume producers will be down for the year (table).

H-HOUR. Ominously, the initial profit crunch may be just a taste of what's to come. This month, Nissan begins its first assault on th mid-size European market with its Bri ish-made Primera. But the full force o the Japanese auto onslaught will not b felt in Europe until the mid-'90s, whe Toyota, Nissan, and Honda will have th combined British capacity to turn ou 500,000 cars a year.

The casualties ar quickly piling up. I late August, Italy Fiat announced temp rary layoffs of 35,0 of its 117,000 factor workers and a 10 cutback in productio The pressure on Fi is acute. Dangerous reliant on its stagna home market, the au giant has seen its Ita ian share slip fro 58% to 54% this yea Efforts to push in other markets will b

THE SQUEEZE ON AUTO PROFITS

	1990 profit* Billions	Percent change from 1989
FIAT	$2.47	-12%
FORD OF EUROPE	0.75	-41
GENERAL MOTORS, EUROPE	1.40	-23
PEUGEOT	1.69	-11
RENAULT	1.30	-26
VOLKSWAGEN	1.27	7

*Estimate

DATA: NOMURA RESEARCH INSTITUTE

made no easier by the general downturn.

Sweden's Volvo, which plans to cement its proposed cross-shareholding with France's Renault this month, also is feeling the squeeze. The president of Volvo's auto unit, Roger Holtback, abruptly resigned on Sept. 3, days after the company announced a 54% drop in first-half profits and the layoffs of 17% of its Swedish work force. And production cutbacks are likely at France's Peugeot, where inventories are up.

There's no quick recovery in sight, particularly since the industry's capacity has grown by some 1.5 million units over the past two years, according to John Lawson, an analyst at Nomura Research Institute in London. "The market is probably weaker than the numbers indicate," says N. Victor Dial, Peugeot's vice-president for marketing. "It has been artificially stimulated by very strong marketing and discounting campaigns." Some executives worry whether the industry will be able to hold consumer attention once the incentives run out. The excitement generated by the recent unprecedented flurry of new cars such as Ford's redesigned Escort is also bound to fade.

In addition, most companies have their own special problems, exacerbated by the heavy spending needed to market their cars across Europe ahead of the Japanese. GM's earnings are expected to suffer partly because tax credits built up from heavy losses in the early '80s are about used up. Ford's profits are sagging under the weight of strikes earlier this year in Britain and Belgium, heavy spending on new models, and its dependence on Britain, where it is the market leader. Ford also is taking a short-term earnings hit with its aggressive campaign to gain market share in Italy. By offering its newest Fiesta at the same price as its previous model, about $9,500, Ford has doubled its Italian share, to 7%, in the past 18 months.

EASTERN LIMITS. The only bright spots are Germany and Volkswagen, now No. 1 in Europe. The West German market continues to purr, fueled by economic growth, the untapped East German consumer, and strong inducements to trade in used cars for new ones. VW is benefiting from radical cost-cutting and a good spread of sales across Europe.

While enthusiasm remains high for boosting sales in East Germany, where VW, Ford, and GM have already set up big dealer networks, the prospects for selling cars in the rest of Eastern Europe are something else. "You won't see the same kind of radical success in other East European countries," predicts Thomas R. Mason, GM's vice-president for sales, because their economies won't be getting as much Western aid as East Germany. Moreover, there are growing doubts that all of the production agreements announced by Western companies will go ahead.

As industry woes deepen, it may be only the richest of the six mass producers that can maintain their outlays on new-model development. Cost-saving joint ventures, such as one under discussion between Ford and VW for a passenger van, will also get new emphasis. But some observers suspect the only solution to chronic overcapacity and inefficiencies may be outright mergers. Topping the list of potential merger candidates: Fiat and Peugeot. Meantime, the road will get rougher for Europe's auto makers.

By Richard A. Melcher in London, with John Templeman in Bonn, Jonathan Kapstein in Brussels, Fred Kapner in Milan, and bureau reports

SOVIET UNION

YELTSIN'S SHADOW JUST KEEPS GETTING LONGER

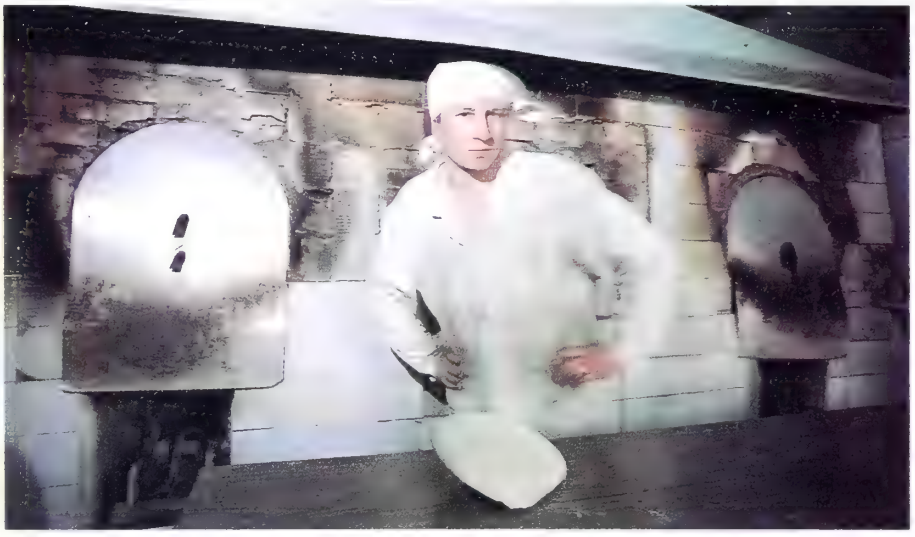
Now, he's eclipsing Gorbachev as the architect of economic reform

How many more twists and turns can *perestroika* take? A near-record grain harvest lies rotting in farm fields as shortages extend to essentials like bread and cigarettes. And now, Boris N. Yeltsin, the gregarious former boxer who heads the Russian Republic, is eclipsing Mikhail Gorbachev as the architect of economic reform.

When it goes into session on Sept. 10, the Supreme Soviet, the nation's parliament, is almost certain to adopt most of the drastic reform measures that Yeltsin's youthful team of economic advisers has dreamed up. Some of the ideas have come from Stanislav Shatalin, a Gorbachev economic aide. But analysts say that the bulk of the planning comes from Yeltsin's stable of radical economists who believe that the Soviet economy can be remade into something like a giant Sweden in remarkably little time—less than two years.

The "500-day plan" that the Supreme Soviet will consider involves massive doses of privatization and an end to state subsidies. The sell-offs would start in a frenzy on Oct. 1, when citizens could start buying state cars, trucks, incomplete construction projects, and military land now used for peaceful purposes. The auction could shrink the nation's budget deficit from about 170 billion rubles to 5 billion, sopping up perhaps half the nation's idle savings.

Other huge changes would start up between October and mid-January, including a massive turnover of collective farms to private owners. Military spending would be cut by 10% and the KGB's budget by 20%. All foreign, nonhumanitarian aid would be slashed by 75%—a move that could chop Soviet aid to Cuba from about $5 billion a year, to less than $1 billion. By late 1992, some banks could trade rubles freely against Western currencies.



RISING FAST: UNDER YELTSIN'S PLAN, SUBSIDIES WILL END EXCEPT FOR STAPLES SUCH AS BREAD

FREE AT LAST. Beginning in January, prices would be freed and subsidies ended on everything except staples such as bread and meat. Also, large-scale privatization of industry will start: By early 1992, up to 40% of all major state industrial enterprises, half of the construc-

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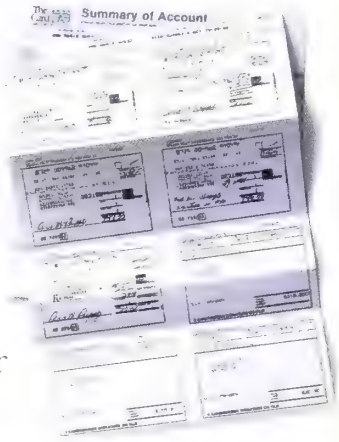

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tion, automobile, and transportation sectors, and 60% of the nation's service industries would be sold off to private shareholders, or leased.

The Supreme Soviet also may look at a more conservative plan from Prime Minister Nikolai I. Ryzhkov that relies on privatization but keeps at least half of the shares of a state business in state hands. His scheme sets prices at first by administrative decree, rather than market forces. But in an apparent death blow to the Ryzhkov plan, Gorbachev, rather than the Prime Minister, will present the proposals to parliament.

Gorbachev has little choice but to go along with Yeltsin's more radical proposals. The Russian Republic, which contains half the country's people and most of its resources, is expected to adopt the Yeltsin plan for its own use, regardless of what the national legislature does. Its vote on a republican economic plan is expected on Sept. 11. If Mikhail Gorbachev fails to keep Russia and the Soviet Union from taking distinctly different paths to economic reform, his prestige and power will plummet.

By Leslie Shepherd in Moscow and Peter Galuszka in New York

THE NETHERLANDS

EUROPEAN HIGH TECH IS SINKING MIGHTY LOW

Philips' retreat in chips signals a crisis in production and research

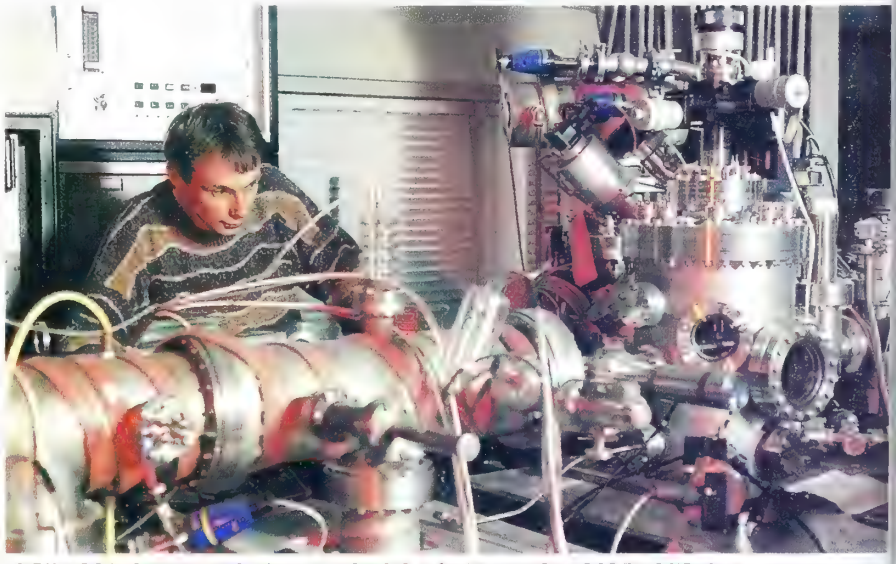
Suddenly, big holes are opening in Europe's strategy to remain competitive with Japan and the U. S. at the cutting edges of high technology. First, International Computers Ltd. (ICL), Britain's biggest computer maker, fell under Japanese control in July, when Fujitsu Ltd. moved to take it over. Now, $27 billion Philips, one of Europe's two biggest electronics companies, is retreating in chips, laying off 4,000 and slashing research. "It's a crisis in European technology," says a European Commission official in Brussels.

With the shakeout accelerating in Europe's chip and computer industries, officials are worried that the Old World is becoming over-dependent on Japanese technology. Cooperative research programs, which Europe was counting on to stay competitive with Japan and the U. S., are also being weakened by the dwindling of European companies that remain to support them. The likely result is that Europeans will try to tighten ties with U. S. companies and cooperative research programs in order to help stave off Japan.

PSYCHOLOGICAL BLOW. Until now, Philips has been a linchpin in the Continent's high technology. The Dutch giant is Europe's biggest chipmaker and No. 10 in the world, with an estimated $1.7 billion in chip sales last year. But largely because of problems in chips, the company is in deep financial trouble and projects a $667 million loss this year. To cut costs, Philips CEO Jan D. Timmer announced in early September that he is halting production of one-megabit static random-access memories (SRAM), a key technology dominated by Japan. Philips had poured $280 million into R&D and had planned to use SRAMs as its "technology driver" for staying competitive in chips in general. With the cutbacks, says one former top U. S. chip executive, "I don't think Philips will remain a factor in the chip business."

Philips also dealt European cooperative research a blow when it quit as a leader of an SRAM project in Jessi (for Joint European Submicron Silicon), Europe's showcase eight-year cooperative research effort to keep up with Japan in memory chips. Although Philips is only cutting its contribution to Jessi by $255 million, a small bit of the program's $5 billion overall funding, the move has huge reverberations. It's "a big psychological blow," admits Peter Thompson, international marketing manager for Karl Süss Co. of Munich, which supplies silicon-chipmaking machinery to Philips.

Europe's two other major chipmakers, Germany's Siemens and Franco-Italian joint venture SGS-Thomson Microelectronics, are still strong. They're determined to make up the slack, but they may have trouble if Philips continues to weaken.



A PHILIPS LAB: THE DUTCH GIANT PROJECTS A $667 MILLION LOSS THIS YEAR

Europe is already moving to protect its remaining strength in high tech. To stall the Japanese, the EC is considering whether to throw ICL out of Esprit, its cooperative information-technology program, because of the Fujitsu takeover. Even as Philips was making its announcement, Jessi officials were in Austin, Tex., exploring deeper ties with Sematech, the U. S. cooperative chip-making-equipment project. Another possible move is to allow IBM, which has a huge presence in Europe, to play a greater role in Jessi. IBM was granted a role in some projects early this year.

It's unlikely that such moves will hold off the Japanese. Although U. S. companies are the biggest players in Europe's chip and computer markets, Japan increasingly supplies the key components for its computers. And in chips, Japan has gained dramatically—up from next to nothing 15 years ago to an estimated 19.7% of Europe's market last year. Only Siemens, Europe's other electronics giant, appears strong enough to really compete against the U. S. and Japan. Among less mighty companies, there is now the danger of a domino effect that will send them tumbling into foreign hands—or just plain tumbling.

By Jonathan Kapstein in Brussels, with Jonathan B. Levine in Paris and bureau reports

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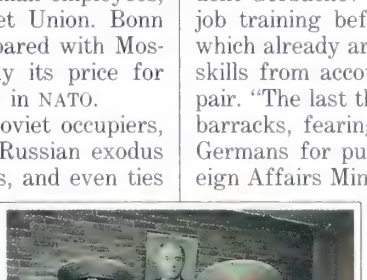
EDITED BY JOHN PEARSON

WHY BONN IS GIVING THE RED ARMY A GOLDEN PARACHUTE

West Germany and the Soviet Union are haggling over the huge bill that Germany will have to pay over the next four years to get 360,000 unwanted Soviet troops, plus 220,000 dependents and civilian employees, out of East Germany and back to the Soviet Union. Bonn insists it won't pay more than $8 billion, compared with Moscow's initial demand for $13 billion—basically its price for allowing the two Germanies to unite and stay in NATO.

Despite decades of bitterness against the Soviet occupiers, however, Germans aim to convert the costly Russian exodus into an opening to build lasting economic links, and even ties of friendship, between the two countries. Such connections should help bolster arms-control agreements and other measures as insurance against future wars.

BUILDING BLOCKS. Two treaties provide the framework for these efforts, spelling out how Germany will pay for the gradual troop transfers and for the upkeep of those awaiting their turn to go. Negotiators are trying to complete the drafts in time for the foreign ministers of the two Germanies and the World War II victors—the U.S., the Soviet Union, Britain, and France—to discuss them in Moscow on Sept. 12. The treaties must be ready for signing before Oct. 3, when the Germanies unite. But already, there is considerable business interest because the deal will make West Germany's construction industry a major link to the Soviet Union. Chancellor Helmut Kohl insists that contracts to put up 40,000 apartments for officers in the Soviet Union, worth around $4 billion, must go to West German builders. The housing is desperately needed: At one garrison in East Germany, officers and their wives were recently arrested and sent home to the Soviet Union after they had refused to go, demanding proof that they wouldn't have to live in tent cities. For German builders and suppliers, the housing projects, including roads, utilities, and schools, will provide experience and contacts in the Soviet market that should generate future business.



SOVIET TROOPS ARE PAID IN MARKS

Bonn also aims to ease the transition to civilian life in the Soviet Union for tens of thousands of soldiers, facing President Gorbachev's plan to shrink the military, by offering free job training before they leave. German companies, some of which already are training Soviet managers, will teach soldiers skills from accounting and computer programming to car repair. "The last thing we want is for these people to sit in their barracks, fearing the day they are sent home and hating us Germans for pushing them out," says an official of the Foreign Affairs Ministry, which initiated the scheme. "We want to make sure they go home as friends."

AVID SHOPPERS. Moving the soldiers and equipment back to the Soviet Union will require 10,000 trains of 50 cars each over a period of two and a half years. Managing such a pullout will require close coordination and tight discipline—something the Soviet army may no longer have. A trickle of deserters has started seeking asylum in West Germany, complaining that the Soviet system is oppressive. The Soviets are demanding that deserters be turned over to them, but the Germans refuse to do so.

To help ease discontent, Bonn is financing one-third of soldiers' monthly pay in Deutschemarks to offset the hike in living costs caused by the German monetary union. While that costs Bonn $800 million a year, the Soviets are spending fistfuls of marks on TV sets, refrigerators, and cars. "You can't afford these things back home," says a 42-year-old warrant officer named Viktor who is serving his last year with a unit at Wünsdorf, a town outside East Berlin. When these soldiers leave, the West Germans are betting they will take with them something lasting: a taste for the benefits of a market economy and German-made goods. That may be the most enduring bond of all between the Soviet Union and Germany after the troops have gone.

By Igor Reichlin in East Berlin

GLOBAL WRAPUP

PHILIPPINES

Turbulence from the Iraq crisis is threatening to capsize the government of President Corazon Aquino by adding an economic shock to a deep political crisis. With coup rumors swirling, some observers think the army could press her to declare martial law to head off threats both from communist guerrillas and right-wing officers.

The soaring cost of oil imports will leave Aquino little choice but to impose fuel price hikes that could boost inflation to at least 18%. This comes on top of the July 16 earthquake that killed 1,600 and caused $2 billion damage. Tensions are reflected in almost daily bombings in Manila in recent weeks.

To keep order, the Cabinet planned to consider on Sept. 8 a proposal by Aquino to open talks with rebels on the right and left. Defense Minister Fidel V. Ramos, who has played a critical role in fending off coups, sharply opposes such talks. That stance has sparked speculation that Ramos himself could lead a military takeover—a charge that he has repeatedly denied.

A widely held view is that if Aquino can hang on until yearend, the threat of a coup will be over. With elections scheduled for 1992 and Aquino's popularity plummeting, right-wing opponents then would feel confident they could unseat her at the polls instead.

WESTERN EUROPE

Europe's four-decades-old steel cartel would be scrapped with the arrival of the 1992 economic union if plans by the EC's competition commissioner, Leon Brittan, are adopted. But so far, Brittan has only won the support of his home government in London. Brittan argues that the subsidies, quotas, and cartels that shield European steelmakers from competition are obsolete, since EC makers have reduced overcapacity to 20 million tons, down from 200 million in the 1970s. But thousands of jobs are still at stake, and Brittan may have to settle for changes that just make the cartel less protected.

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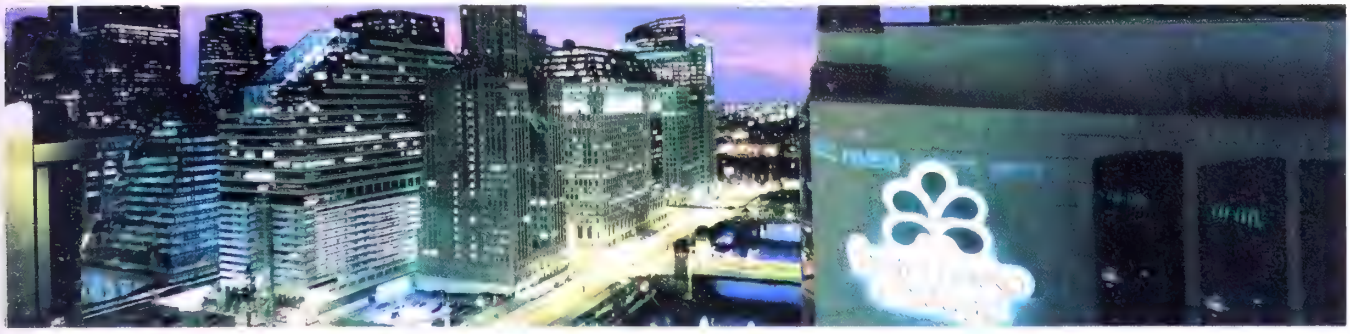

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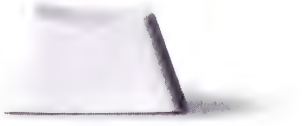

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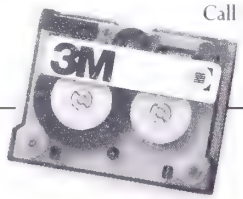


3M

SO FAR, NISSAN'S CATCH-UP PLAN HASN'T CAUGHT ON

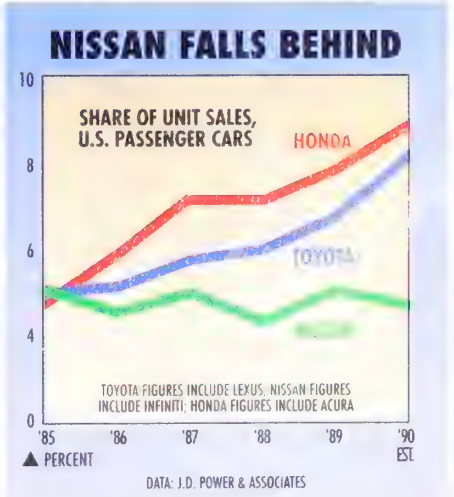
Despite all the snazzy new models, it's still struggling to boost sales and rebuild its image in America

For Nissan Motor Co., 1990 was supposed to be a breather. After last year's onrush of new cars, this should have been a transition year in the U. S., a year for switching focus from entry-level buyers to the more lucrative market for compact sedans. Sales weren't expected to reach new highs—but they weren't supposed to sank, either.

Instead of catching its breath, Nissan is gasping. Through July, the company's U. S. car sales fell a stunning 3%. Granted, it's a slum year to be in the auto business: Car sales in the U. S. are already off nearly 5%, and the specter of an economic slowdown offers little hope for improvement. But over the past year, Japanese manufacturers as a whole have captured an incredible 3.5 share points, giving them 27.5% of the U. S. market. Leading the way, as usual, are Toyota Motor Corp. and Honda Motor Co., which have been setting new records month after month. So far this year, Toyota's unit sales volume is up 25%, and Honda's, 14%. But rather than joining its compatriots' parade, Nissan once again finds itself left in their dust.

For its part, the company blames its decision to shift emphasis from its entry-level Sentra to the larger Stanza, which caused Sentra sales to sag. But sales of every Nissan model except the Stanza have fallen as well, suggesting the company's woes go deeper. With the least U. S. production capacity of the big three Japanese auto makers, Nissan has been forced to focus on the booming home market while giving the U. S. less weight. Styling missteps in the early 1980s gave the company a reputation for making dull cars. It was squeezed out of one of the industry's few hot categories when its Axxess minivan flopped. And Nissan continues to wrestle with a long-term image problem in the U. S.

MIGNANELLI: THE FORD VETERAN'S JOB IS TO GET U.S. SALES UP TO SPEED



To fight back, Nissan will unveil a sleek replacement for its aging Sentra on Sept. 12. It's spending $500 million to double U. S. production capacity. It's designing a minivan that Ford Motor Co. will assemble from Nissan-made components for each company to sell. And it's hoping to rebuild its image for innovative design with a daring new Stanza due in 1992.

The company badly needs the moves to pay off. Its U. S. performance—dubbed "worse than mediocre" by Executive Vice-President Atsushi Muramatsu—is dragging the company's results down. Net profits for the parent company in the year ended Mar. 31 rose 34%, to $567 million, on a sales gain of 12%. But when subsidiaries were included, profit growth was pared to just 1.2%, largely because of Nissan Motor Corp. in U. S. A., as the American sales arm is formally known. Over the same period, Toyota's consolidated profits grew 27%, to $2.9 billion, on a 15% increase in sales, to $60 billion.

ON A TEAR. Nissan's current stall is all the more surprising considering the tear it was on in the U. S. last year, when the company fielded a dazzling array of good-looking cars. The Maxima family sedan topped J. D. Power & Associates' consumer satisfaction index. The all-new 300ZX sports car was named *Motor Trend*'s Import Car of the Year. Sales of the sporty 240SX tripled those of its predecessor. Nissan's jazzy lineup gave it a brief market-share jump in 1989. But this year, it was forced to devote capaci-

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ty to the exploding Japanese market. "We don't have enough cars for both markets," says Yoshikazu Hanawa, president of Nissan North America. "There's a tendency to slightly emphasize the domestic market."

In Japan, No. 2 Nissan has 24% of the market, vs. Toyota's 42%, and is trying to regain share it lost in the early 1980s. Nissan has rebuilt its image at home with a series of beautiful big cars—the Cima, the Cefiro, and the Infiniti. And it has won a reputation as Japan's styling pro with a trio of whimsical, limited-production sellouts: the small, two-door Be-1; the PAO, a perky hatchback; and the S-Cargo, a snail-shaped delivery truck.

Except for the Infiniti, however, those cars never made it to the U.S. Nissan was once a strong No. 2 among Japanese importers in the U.S. But it has been seesawing around a 5% market share for more than a decade, watching as Toyota widened its lead and Honda passed it by (chart, page 59). "Toyota and Honda have done a masterful job of crafting their images," says Christopher W. Cedergren, senior auto analyst at market researcher J. D. Power & Associates. "Nissan has never been able to do that."

The U.S. image problems started in the early 1980s, after Japanese carmakers agreed to limit their exports to the U.S. Overwhelming demand for the fuel-efficient Japanese products turned dealers into order takers. And Nissan's U.S. distribution arm forgot about marketing. "They thought their job was to get the car from the port to the dealership without denting it," says a Nissan official.

Nissan's Tokyo headquarters made matters worse with its 1981 decision to ditch its U.S. brand name, Datsun. "Nissan had a terrific image when it was Datsun," says J. Jesse Snyder, director of product analysis for AutoPacific Group, a market researcher in Santa Ana, Calif. "It had built a very strong image of innovative, sporty, performance-oriented cars that were fun to drive." The image was partly derived from the 240Z, the first true sports car from a Japanese company.

'ECONO-BOXES.' Nissan spent hundreds of millions of dollars to embed the new name in the American consumer's mind. It gave up such catchy slogans as "Datsun—We are Driven" in favor of the unmemorable "The Name is Nissan." In both the U.S. and Japan, it seemed to forget about design, introducing a series of stodgy, squarish "econo-boxes" differentiated only by size.

Finally, the Japanese company recorded its first-ever loss in 1987 and woke up. Nissan's headquarters underwent a massive restructuring, and Thomas D. Mignanelli, then general manager of Ford Motor Co.'s Lincoln-Mercury Div., was recruited to revamp U.S. operations. He didn't like what he found. "A lot of people had forgotten there was a car business out there," he says.

What's more, a lot of Americans still didn't know what a Nissan was. Many thought Nissan was a division of Toyota. Worse, they didn't recognize the names of individual cars, identifying Pulsar as a popular watch brand and Maxima as an interest-bearing checking account. Mignanelli fired Nissan's ad agency, retired a lot of employees and dealers, carved the company up into manageable divisions, and dispatched

'INFINITI IS TURNING OUT TO BE A WINNER'

It just sits there in the middle of his desk, a smooth ovoid rock about the size of a small cantaloupe. For William R. Bruce, vice-president and general manager of Nissan Motor Corp.'s Infiniti Div., it's a constant reminder of the bumpy start Nissan's luxury car line had last November.

Infiniti's initial ad campaign—with its rocks and trees, clouds and cows, ripples and rain—has given way to loving shots of the flagship Infiniti Q45, a $38,000 sedan, speeding down country roads. Competitors' snickers have pretty much stopped, too, as Nissan's biggest gamble in the U.S. shows signs of paying off. Monthly sales are climbing steadily and now consistently top 2,000—double the rate of six months ago. One by one, more than 70 dealers have opened showrooms, and most are profitable. "Infiniti is turning out to be a winner," concedes Christopher W. Cedergren, the once-skeptical senior analyst at market researcher J. D. Power & Associates Inc.

DOWNSCALE GAMBLE: THE FOUR-CYLINDER, $17,500 G20

The weird ad campaign wasn't the only risk Nissan took with Infiniti. The car is aimed at a narrow audience: drivers who don't want to be isolated from the road, who want to feel the car's performance. And Infiniti's designers came up with their own look, with no signature grille and an austere cockpit that does away with the usual expanse of natural wood. By contrast, archrival Toyota Motor Corp.'s competing Lexus LS400 was designed to appeal to a broad cross-section of luxury car buyers, with comfortable, reassuring styling reminiscent of Mercedes-Benz and with the cushier ride that Americans prefer.

Nissan also took a chance with Infiniti's 1989 launch date—November, traditionally the second-worst auto-sales month and, in retrospect, the start of the industry's current slowdown. But there was one lucky coincidence: As Nissan rolled out the Infiniti, Toyota was recalling the Lexus to repair a faulty cruise-control switch. Now, a $30,000 Infiniti M30 convertible is due this November, held off the market for six months until Nissan engineers perfected the top, which must open and close at the touch of a single button.

This month, Infiniti is taking yet another gamble. It will add a third car, the four-cylinder, $17,500 G20 sedan, to the Q45 and the $23,500 M30 coupe. When first told about it two years ago, dealers couldn't believe Infiniti would dare dilute its image with such a low-priced car. "I've changed my mind," says Gary D. Nesen, who runs both Lexus and Infiniti dealerships in Westlake Village, Calif. "It's a dynamite car, one of the finest-handling cars I've ever driven."

Lexus is still outselling Infiniti by 34,035 to 11,367 so far this year, but the gap is shrinking. And in J. D. Power's annual sales-satisfaction index, Infiniti ranked second only to Mercedes. And ahead of Lexus, for once.

By Larry Armstrong in Los Angeles

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dozen regional managers to field offices.

He also laid the groundwork for shifting Nissan's big seller from the low-margin $8,000 Sentra to the $12,000 Stanza. The process started last fall with the introduction of a Stanza with a more powerful engine. When it didn't take off, Nissan cut the price. Then, in March, it launched dealer incentives and an innovative offer to pay $100 to anyone who test-drives the Stanza and then buys an Accord or Camry. In the past six months, Nissan has paid out more than $500,000—but it's working. Stanza sales are now running nearly double last year's rate of 43,000 and will stop at around 80,000 for the year only because the Japanese factory is running out. "Best half-million I ever spent," says Mignanelli, who was named president of the U. S. sales arm in June.

To hike capacity, Nissan last year embarked on a vast $500 million expansion that will double annual production by 1992, to 450,000 vehicles, at its factory in Smyrna, Tenn., now producing Sentras and trucks. It wants to devote most of the new capacity to making Stanzas, but analysts figure that it can't cost-effectively move production from Japan unless it can build 100,000 to 150,000 a year. The company hopes to make and sell as many as 200,000 Stanzas.

REVAMPED. But the little-known Stanza will need more than a $100 giveaway to hit that target. It will face a fierce fight with Toyota, which sold 257,000 Camrys in 1989, and Honda, which sold 362,000 Accords. "That's where Toyota and Honda are gaining their share," says Mike Kobayashi, auto analyst at PaineWebber Inc. "It's a segment where Nissan has virtually no presence."

That's where a daring new Stanza, designed by Nissan stylists in San Diego, comes in. Due in 1992, the revamped model will be the company's first car to be designed, engineered, and produced in America. Industry sources think it will be one of the first of the new "cab-forward" designs that all auto makers are moving toward. These will feature extremely short hoods and long sloping windshields, much like the new minivans from General Motors Corp. and Toyota. They offer more interior space, and—more important—truly change the proportions of the vehicle. "There's no question that cab-forward will be the new look," says John P. Wolkonowicz, senior auto consultant at Arthur D. Little Inc. "And Nissan may have more of it soon than anyone else in the industry." If that's true, the new Stanza could finally give Nissan's U. S. image the jump start it needs.

By Larry Armstrong in Los Angeles with Karen Lowry Miller in Tokyo

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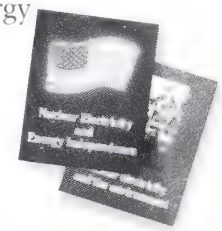

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FASHION

LINGERING APPEAL? THE COMPANY IS NEARLY MIDDLE-AGED—BY SEVENTH AVENUE STANDARDS

LIZ CLAIBORNE WITHOUT LIZ: STEADY AS SHE GOES

The designer is leaving her now-diversified company strong

In the dog days of summer, many city dwellers fantasize about calling it quits and escaping to the country. So a mental salute went up along Seventh Avenue when Liz Claiborne and Arthur Ortenberg made their announcement in late August. The designer and her businessman husband said they were resigning from the board of apparel maker Liz Claiborne Inc. to pursue a second career. Their plan: protecting wildlife and fighting for conservation in the Third World and the American West, and spending more time on Tranquillity Ranch, their spread in Montana.

Although the Ortenbergs gave up their operating duties in May, 1989, their resignation from the board, coupled with a gradual sell-off of their 6% equity stake for at least $108 million, will virtually sever the company's ties with its eponymous founder. And it leaves Jerome A. Chazen, an original partner of the Ortenbergs, clearly in charge. Says Ortenberg: "The sooner the company gets out from under our mythic infallibility, the better off it's going to be."

The truth is that Chazen, 63, who has been chief executive since Claiborne gave up the title last year, has been a key decision maker since he and the Ortenbergs founded the company in 1976. During that time, he helped develop the business of dressing women for careers into a billion-dollar enterprise.

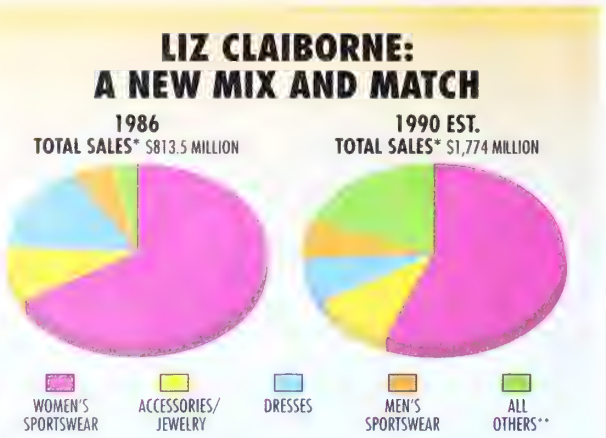
Still, Liz Claiborne Inc. is fast approaching what passes for middle age on Seventh Avenue. Even though "Liz owns the baby boomers," says Alan Millstein, a fashion consultant and newsletter publisher, "most brands only last 20 years." Esprit De Corp. and Benetton USA Inc., for example, enjoyed explosive growth by catching the eyes of well-off kids looking for colorful, trendy clothes. But their customers outgrew these fashions, and both have lost market share. To complicate things, there are also signs that the entire retail and apparel business may be headed for a prolonged slump. So even with his proven track record, Chazen will have to move smartly to beat the odds.

RECORD EARNINGS. Nonetheless, the Ortenbergs are leaving the company in a strong position. Although the stock price has slid from 34 in mid-July to a recent 27, institutional investors say they aren't worried. Kurt Winters, an analyst at IDS Financial Services Inc., which holds 4.9 million shares, or 5.6%, of Liz Claiborne, estimates earnings should hit a record $201 million this year, up 22%, on sales of $1.8 billion. The company has almost no debt and $373 million in cash for stock buybacks, a dividend boost, and expansion. Also, "the stronger purveyors are in a stronger position to get shelf space," says William Corneliuson, a portfolio manager at Strong/Corneliuson Capital Managements Inc., which owns 455,000 Liz Claiborne shares.

One thing Corneliuson and others like is the broad and gradual diversification that Chazen had been working on even before he succeeded Claiborne as CEO (chart). Since the mid-1980s, Chazen has created 14 separate businesses at Claiborne, in addition to Liz's original line of women's midpriced sportswear and career clothes.

The core sportswear lines are maturing: Sales growth has gone from 35% annual increases in the early '80s to roughly 17% in the past four years. So Chazen has been looking for faster growth in other areas, and bit by bit his new lines are providing it. Despite Claiborne's initial reservations, he created a line for large women, Elisabeth, whose sales will quadruple to $50 million this year, according to analyst Cathlee W. Mackey of Gruntal & Co. Mackey estimates Liz & Co., a line of more casual weekend wear, will also quadruple th

CEO CHAZEN: "CLEARLY IN CHARGE"



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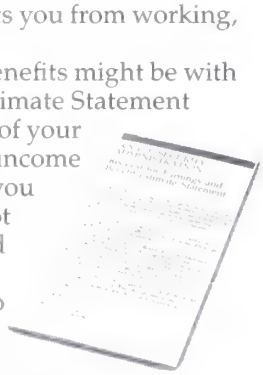

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year, to $34 million. Sales are booming in Canada, and a deal with Harrods in London has just been struck. Analysts estimate Claiborne fragrances for men and women will hit $85 million this year, and a jewelry line has just been launched.

Chazen, a longtime friend of the Ortenbergs who roomed with Arthur at the University of Wisconsin, has also had setbacks. In 1987, he helped devise a strategy to follow the current fashion craze and shortened Liz Claiborne hemlines. The move was a fiasco. Says Chazen: "We got so involved in a dramatic fashion message that we forgot that our customer is a little bit different." The company went back to longer lengths, and customers returned to the fold. This year, a $20 million line of career apparel, named after company designer Dana Buchman and priced well above ordinary Claiborne outfits, hasn't gone over big. It's one of the few Liz Claiborne lines that has ended up at such discounters as Loehmann's. And the company has reasserted control over its poorly selling shoe line, which had first been licensed to U. S. Shoe Corp.

One risky venture that could turn into a big money-maker is Chazen's foray into retailing. Since 1988, Claiborne has started two chains: First Issue stores, which sell an eclectic mix of casual clothing markedly different from the Liz Claiborne lines that department stores stock; and Liz Claiborne stores, which Chazen says are "laboratories," more to test consumer tastes than to turn a profit. The 37 First Issue stores could end up selling apparel in the same price range as The Gap, but for women ages 25 to 55, not the Gap's teenage audience. Chazen admits, though, that the First Issue stores still need work.

STRONG DEMAND. While Chazen concentrates on new expansion strategies, the well-oiled machine that moves merchandise to stores from 150 factories around the world continues to run smoothly. The company shrewdly ships severely limited supplies to stores every week, while most other apparel makers ship every month. Shipping weekly keeps Liz Claiborne merchandise from getting stale and helps it sell out quickly. Demand remains so strong that the company is able to maintain a policy of rarely accepting returns. Says Mark S. Handler, president of R. H. Macy & Co.: "Even in bad times, Liz Claiborne will get its fair share."

If times get too tough, even a fair share may prove disappointing. But Liz Claiborne seems to have the financial strength and inventiveness to weather a downturn. That resilience is a powerful legacy for a parting founder to leave.

By Laura Zinn in New York

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Why it's important t establish a National E

A "SHORT-TERM" PROBLEM WILL TAKE DECADES AND COST BILLIONS.

Alarmed by the poisoning of our environment at Love Canal and other toxic waste sites, Congress created the Superfund program ten years ago. Superfund was intended to be a short-term cleanup program for the most serious hazardous waste sites across the country.

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Currently, 1,200 of the most dangerous sites have been selected for priority action. Billions of dollars have been spent, but very few sites have been cleaned up. In fact, only 45.

SO FAR, ABOUT ALL WE'VE DONE WITH HAZARDOUS WASTE IS WASTE TIME AND MONEY.

One problem is that Superfund requires establishing liability–who sent what waste, how much and where. And this has taken priority over cleaning up. With the cost of cleanup at just one site estimated as high as one hundred million dollars, the question of who pays has serious consequences for everyone involved.

At most hazardous waste sites, the operator of the dump caused the environmental harm. But under Superfund,

everyone who used the site is liable for the cleanup bill. The record of users can go back 25, 30 or 40 years and can number in the hundreds. Users can include major corporations, small businesses, local governments, hospitals, nursing homes, schools, even individuals.

For example, at 422 sites almost 14,000 entities have been notified by the government that they could be liable for the cleanup cost. And many of these entities have themselves identified still others.

The result? A bonanza for lawyers and

ut cleanup first and ironmental Trust Fund.

consultants. And a tragedy for the environment. At some sites, as much as 60% of the money spent goes toward legal expenses in costly and time-consuming efforts to assign liability instead of solving the cleanup problem. An avalanche of lawsuits has resulted, all aimed at getting someone else to pay.

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At AIG, we think it's high time to find a better approach to the problem of cleaning up old hazardous waste sites. One that encourages prompt cleanup and spreads the cost more broadly. And more equitably.

We propose creating a National Environmental Trust Fund similar to the National Highway Trust Fund. Its resources would be used exclusively for cleaning up old hazardous waste sites. The Fund could be financed by adding a separate fee to commercial and industrial insurance premiums in the United States.

Even a modest assessment, say 2% of premiums and an equivalent amount for self insurers, would provide about $40 billion over the next decade, more than enough to deal with the 1,200 highest-priority sites.

A national advisory board of private citizens, industry and public officials could be charged with overseeing the program. We also suggest giving consideration to establishing local technical monitoring committees in each community. These groups would be composed of local citizens, industry and others who would work with the Environmental Protection Agency and the state on the particular cleanup site, from the very beginning of the cleanup effort.

Just think. A new way to finance Superfund's mission without the need for new taxes, a new government agency or expensive and unproductive lawsuits.

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REJUVENATORS

THE 'PRINCE OF PLAY' GIVES UP HIS TITLE

At the cost of his golf game, Martin Emmett is a hit at Tambrands

EMMETT CAN BE ONE OF THE GUYS—UP TO A POINT. WHEN GOALS ARE MISSED, HEADS ROLL

To co-workers at Nabisco Brands Inc., Martin F. C. Emmett and his buddy F. Ross Johnson were "Martini & Rossi"—a couple of fun-loving, good-time guys on the loose. No expense seemed too great, no golf course too far away. A lot has changed in the seven years since they last worked together, but Emmett still loves a good time. "Oftentimes you find your basic CEOs are uptight," observes his friend Don Meredith, the former star quarterback. Not your basic CEO of Tambrands Inc. Emmett has earned "a master's degree from the Don Meredith School of Leisure," boasts his friend. The Meredith credo: "It ain't easy being easy."

Emmett, 56, seems an odd choice to run Tambrands—a staid company whose chief product is Tampax tampons. This wasn't lost on the committee that interviewed him for the job in 1989. One person familiar with the search recalls that Emmett's fast-lane lifestyle led headhunters to dub him the "Prince of Play." Chairman Emeritus Russell Sprague concedes that Emmett's reputation made a few directors nervous. "Maybe he was a little too outward for some of us," he says. "Our biggest worry was whether he would be satisfied with a company that was anything but jet-setting." But Sprague, now a board member, adds that Emmett had strong qualifications, with a good grasp of manufacturing, plenty of international experience, and crack financial skills.

So far, this odd-couple marriage is working surprisingly well. When the South African native joined the Lake Success (N. Y.) company in April, 1989, it was on the brink of a breakdown. Its financials were sound, but a diversification into pregnancy-testing kits and cosmetics had flopped and was draining earnings. And Chairman Edwin H. Shutt Jr. had resigned, feeding rumors that Tambrands would be sold. Emmett dismantled the diversification, slashed costs, and began buying back stock. Within months, a Wall Street disappointment became a Wall Street darling. The stock soared from the high 50s to a record of 91 in July. It has drifted to 82 in a softer market, but its price-to-earnings ratio, based on analysts' 1990 estimates of $4.61 a share, is still a huge 18.

REGAL STANDARDS. So what's next? With the company stripped down to its basic business, Emmett-watchers think a sale is likely. "He's essentially doing a quasi-LBO right now," says Andrew Shore, a Prudential-Bache Securities Inc. analyst. He cites asset sales, deep cost cuts, and Emmett's plan to sell its headquarters and buy a site half the size in nearby Westchester County. Says Shore: "I personally think he's packaging the company to be sold." Fueling that speculation is Emmett's background: Before Tambrands, he worked as an investment banker, selling $600 million of businesses for RJR Nabisco alone. Analysts list Johnson & Johnson and Procter & Gamble Co. as possible buyers.

If Tambrands were sold at the stock's current price, Emmett's options would be worth around $3.4 million. But he insists he's not there to sell. "I was brought in to clean up the company and turn it around—not to sell it," Emmett says. "Our present headset is to run that business absolutely perfectly, whether it's packaging, advertising, plants, equipment—all of those things just have to be to a king's taste."

If they're not, more heads could roll. In the first eight months of the new chairman's tenure, three of his four top subordinates cleared out, leaving him free to install his own people. Two are former Nabisco men. Altogether Emmett has cut the work force by 17%, to about 4,000—its lowest level since 198[illegible]. His operating style, associates say, is the same as it was at Nabisco: He surrounds himself with loyal executives, issues strict marching orders, and lets subordinates loose to carry out his plans.

Detractors talk of threats and intim[illegible]

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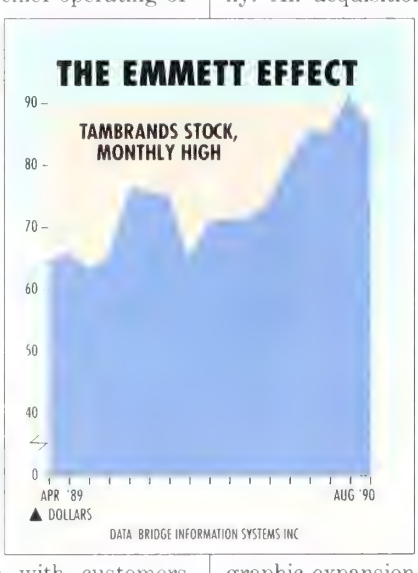
dation at the office. Says one: "If anyone questions his authority, he'll fire them." Emmett doesn't dispute his toughness. "Let's put it this way: When results don't meet expectations, I'm quite amenable to changes in management," he says. Fans describe him as a charismatic leader with a flair for motivating his managers and a talent for cutting loose. On a recent retreat with a few executives, for example, he amused subordinates by breaking into a song that he and Meredith like to sing. "I wanna be a Jesus cowboy," he crooned, "and ride in the Holy Ghost Corral."

The son of a banker and a history teacher, Emmett grew up in Johannesburg. He studied mechanical engineering in college, then got an MBA at Queen's University in Ontario. After graduating in 1962, he joined Alcan Aluminium Ltd. and took Canadian citizenship. Ten years later, he accepted a job offer from Ross Johnson, the president of Standard Brands Co.'s Canadian subsidiary. Emmett was known as a tough, numbers-oriented boss who got results. Following in Johnson's wake, Emmett became president and chief operating officer of Standard Brands by 1980.

Those were the days. Expense accounts were lavish, and company perks for Emmett included an apartment on New York's East Side and frequent golf games with the world's best pros. During this period, Emmett would often indulge his taste for shorter than eight-hour days, former associates recall. Standard Brands at that time paid a stable of big-name ex-athletes to schmooze with customers. Emmett formed lasting friendships with several, including Frank Gifford, Bobby Orr, and Meredith. By 1983, two years after Standard Brands merged with Nabisco, Emmett decided his future there was limited. He left to run the New York investment-banking arm of Canada's Burns Fry Ltd.

CASH HOARD. One of his clients was Tambrands. With a healthy 60% of the $700 million U.S. retail tampon market and a debt-free balance sheet, Tambrands had no reason to be in trouble—except that its diversification effort was a dud and marketing of its main product had grown sloppy. In February, 1989, Tambrands Chairman Edwin Schutt



Although Tambrands may buy back up to 40% of its shares, Emmett denies the company will go private

quit, and Emmett joined in April, moving quickly to install new financial controls. Next, he revamped packaging for its Tampax brands, and, this June, launched a new plastic-applicator tampon, Tampax Compak. He also introduced an ad campaign that takes an upbeat, career-oriented approach Emmett pronounces "more ennobling of women" than previous ads that focused on the product. And he has made Maxithins pads a low-price brand, vowing to close that business if it doesn't produce profits.

Phase Two, he says, is doing something smart with his cash hoard. With roughly $100 million in cash, and an expected free-cash flow of $40 million in 1990, Tambrands is one wealthy company. An acquisition is a possibility, but Emmett says he's in no rush. That leaves stock buybacks. Tambrands bought 5% of its shares in late 1989 and announced another 5% buyback in February. Over time, Emmett says, he can see Tambrands buying up to 40% of its shares. But he won't take it private. "The cash flow over a 5- to 10-year period is not high enough to get into 100%," he says.

The chairman's next frontier is geographic expansion. The company derives 40% of its revenues from overseas, but Emmett will push especially for growth in Western Europe, where many women still favor pads. Tambrands is also the only marketer of tampons in the Soviet Union, where it has a joint venture.

Maybe the best indicator of how hard Emmett is working is his golf handicap. One former Nabisco executive recalls him as a 2 handicapper. Meredith says that the last time he and Emmett played, the number was around 8. Emmett says it's more like a 12 now, because he has been so busy at Tambrands. For the Prince of Play, that's an impressive sacrifice.

By Andrea Rothman in Lake Success, N.Y.

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CAN U.S. DEFENSE LABS BEAT MISSILES INTO MICROCHIPS?

With Star Wars on hold, the Energy Dept. wants its scientists to focus on industrial research

Not so long ago, Brian E. Newnam was a model Star Warrior. The Los Alamos National Laboratory physicist was racing to build a laser mighty enough to zap Soviet ballistic missiles seconds after lift-off. But with the Soviet threat reduced, the Strategic Defense Initiative is facing major cuts. So Newnam is training his laser on a new target—fashioning high-tech microchips for the economic battle with Japan and Europe. He hopes that civilian use of powerful lasers will give U.S. chipmakers an edge—and help him stay funded for years. Says Newnam: "The new use would fit the bill nicely."

Newnam's odyssey from missile shield to microchip is one small sign of a profound change in the nation's vast weapons laboratories. Born as part of the Manhattan Project's quest to build an atomic bomb, and fueled by the cold war's relentless demands for better nuclear weapons, Energy Dept. national laboratories, such as Los Alamos and Sandia in New Mexico and Lawrence Livermore near San Francisco, grew into giants of research and development. During the Reagan military buildup, their budgets more than doubled, to about $3 billion a year (chart). Add in the funding for Energy's weapons plants, and the department's defense program consumes $7 billion a year and employs 17,500 scientists and engineers.

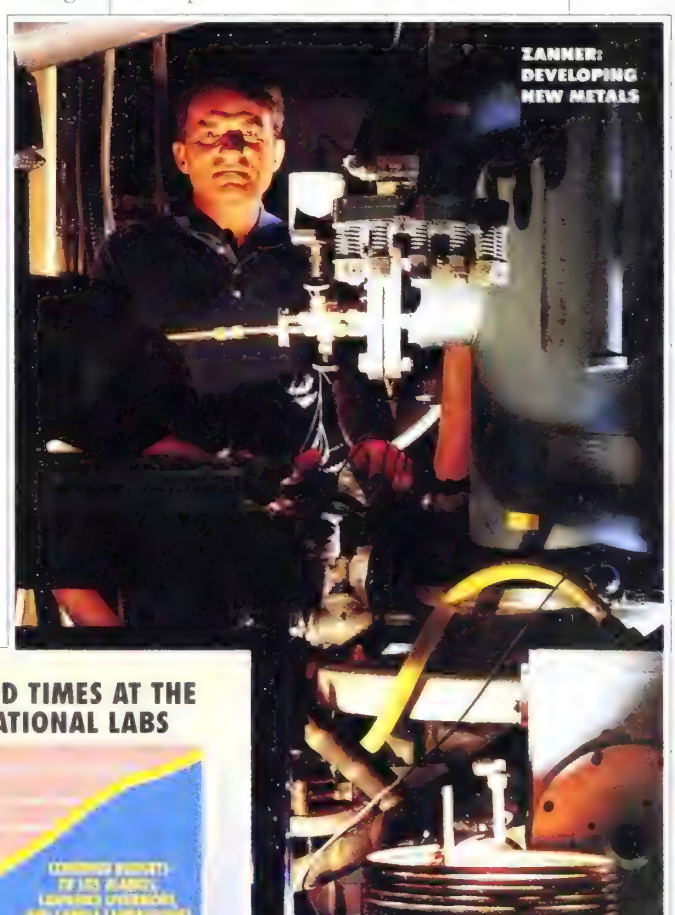
But the cold war is over, and the low-tech threat of Saddam Hussein's desert incursion won't spur demand for nuclear arms. As a result, everyone from lawmakers in Congress to Energy officials says much of the labs' money could be put to better use. "We need new missions for these great assemblies of people and skills," says Leon M. Lederman, director emeritus of Fermilab, a federal physics research facility near Chicago.

Skeptics wonder if these vast bureaucratic organisms can adapt to their new world. "In past years, the labs have tried hard to establish relationships with industry and have not gotten very far," says physicist Walter Kohn of the University of California at Santa Barbara. But the doubts haven't stopped lab directors from trooping to Congress and promoting a bevy of possible new missions. "We need to regain our world leadership in applying technologies, and we need our laboratories at full strength to do so," insists Energy Secretary James D. Watkins, who has formed a high-powered committee to re-examine the department's 30-odd labs.

Ironically, one expanded role for the labs in the post-cold-war era will be to tackle the huge environmental mess caused by Energy's own nuclear-weapons program. Estimates for cleaning up contamination around weapons plants and managing the resulting wastes run as high as $200 billion over the next three decades. At Los Alamos, researchers have designed the modern equivalent of the alchemist's crucible, a huge particle accelerator that would transmute long-lived radioactive waste into more easily stored, short-lived radioactive substances. "We are capable of developing the environmental technologies of the future," says A. Bryan Siebert, director of Energy's Office of Classification & Technology Policy.

BUM RAP. But what Energy and many in Congress are pushing hardest is the seductive notion that the national labs are an unplayed ace in the global economic game. "They have resources in supercomputing, materials science, and advanced manufacturing that are unmatched," says Senator Jeff Bingaman (D-N. M.).

Witness American Superconductor Corp. The Watertown (Mass.) high-tech company learned about a process at Argonne National Laboratory to make ingredients for new, high-temperature superconductors. Then, with help from the lab network, ASC President and CEO Gregory J. Yurek located equipment at Oak Ridge National Laboratory capable of fashioning balky superconducting materials into long, flexible wires. The resulting wires have been wound into coils and used for prototype superconducting motors. Says Yurek: "The national labs allow us t



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ıppen by chance.

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Still, such success stories are rare. One great frustration of New Mexico's two senators, Bingaman and Republican Pete V. Domenici, is that home-state labs Los Alamos and Sandia have spun off so few companies compared with universities such as California Institute of Technology, Stanford, and Massachusetts Institute of Technology, whose research facilities have only a fraction of the government labs' budgets. Until recently, "you could not find anyone in industry who would say anything good about the federal labs," says Joseph P. Allen, director of the Commerce Dept.'s Office of Technology Commercialization.

Now, a small group of bureaucrats and scientists in Energy is trying to change the image and culture of the labs. The task is formidable. They must persuade "pure" basic scientists to think commercially, convince industry that the labs have something to offer, and work out new arrangements that give companies proprietary rights to once freely disseminated knowledge. In the 1980s, sharp cutbacks in energy research provided the labs with the first incentive to link up with industry, but the idea has only recently begun to gather momentum. A watershed was the National Competitiveness Technology Transfer Act, passed in November, 1989, which directed the labs' vast defense programs to commercialize their closely held technology. "We are doing something totall unlike a bureaucracy—we are takin risks," says Energy's Siebert. "This is quantum leap for the labs."

It may be too great a leap for la traditionalists who see ties with industr as suspect. "People above us at DO have worked to thwart what we wer doing," says Siebert. And some of th labs took the attitude that technolog commercialization was just another tem porary fad. So they haven't change their strategies or management styles.

But at other facilities, the shift ha taken hold. "Right now, every new pro gram has to have industry partners, or won't get federal funding," says Vino K. Sikka, leader of the metal-processin

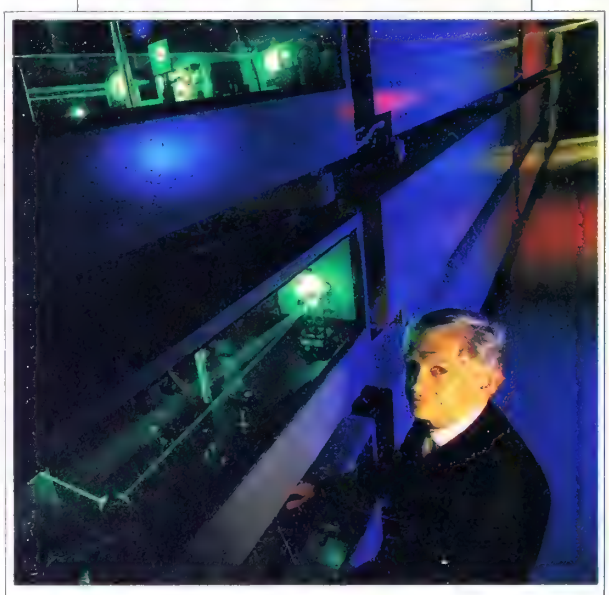
LIVERMORE LAB COMES IN FROM THE COLD WAR

Researcher Joseph M. McCune III needed a way to isolate AIDS-infected cells from a strain of laboratory mice he had developed at biotech startup SyStemix Inc. But with conventional sorting gear, that took hours and killed many cells. So he called in the bomb factory. Cell-sorting technology developed at Lawrence Livermore National Laboratory—best known for its nuclear missiles—now helps SyStemix in Palo Alto, Calif., do its cell work in one-fourth the time. That may help researchers find new AIDS treatments and even a vaccine.

It's the last thing you would expect from the folks who invented the hydrogen bomb. But as tensions ease in most of the world, Livermore is scrambling to come in from the cold war. It has little choice: Two-thirds of its $1.1 billion budget goes to defense areas such as Star Wars, which is slated for cuts. Lab managers hope that work in such areas as nuclear energy and chipmaking will cushion an expected 10% budget cut next year—and emphasize the lab's civilian role. Boasts lab engineering chief Roger W. Werne: "We're the paradigm for the industrial resurgence of the U. S."

Perhaps. But Livermore has a lot to prove. Ever since atomic physicists Ernest O. Lawrence and Edward Teller formed it in 1952 some 40 miles southeast of San Francisco, it has mainly designed warheads and missiles. Now, some insiders doubt that its leaders, steeped in defense culture, can spell out a purpose broad and compelling enough to loosen purse strings in Congress and at the Energy Dept. "I don't think the lab's management has the vision to make the switch," says Livermore lab physicist Hugh E. DeWitt.

Such doubts aren't stopping Director John H. Nuckolls from pushing staffers to probe new fields. Already, Livermore has developed dozens of civilian products and technologies, such as superlight insulation and gene-therapy techniques. "This place is a real cookie jar," says Gilbert R. Marguth Jr., deputy director for technology transfer.



DIRECTOR NUCKOLLS: "IT'S GOING TO BE A BUMPY ROAD"

The tastiest morsels are potential new energy sources, a field funded at more than $250 million a year. Nova, the world's most powerful laser, musters energy equal to 3 trillion 100-watt light bulbs to make atomic nuclei collide—briefly creating a tiny star. The process may yield abundant, clean, fusion energy.

Beyond that, Livermore has formed partnerships with companies to locate oil deposits and develop ceramic metals that can withstand severe wear. At least 50 companies have grown out of Livermore technology. One, Valid Logic Systems Inc., spawned the $1.4 billion computer-aided-engineering industry. And Martin Marietta Corp. will use lab lasers to purify uranium in a $1 billion plant to be built in the mid-1990s.

LAPSES. But shifting gears has its dangers. A congressional subcommittee is probing possible conflicts of interest in a license given to a company started by former lab members. And the lab's credibility has been hurt by overblown promises on new weapons, such as physicist Lowell L. Wood's "brilliant pebbles"—small orbiting supercomputers that would seek out and destroy enemy missiles. Recent lab lapses, such as a plutonium spill and drugs found in high-security areas, don't help.

Moreover, no one is as good at garnering support for nondefense projects as Teller and Wood were in weapons. "It's going to be a bumpy road for the next decade," Nuckolls concedes. In July, Representative Fortney H. Stark (D-Calif.) introduced a bill to create a commission that would devise nondefense projects for the lab. If Livermore leaders can't come up with a clear plan for the future, others may do it for them.

By Robert D. Hof in San Francisco

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10:15 AM

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lab at Oak Ridge, where he is working on both superconductors and advanced alloys. At Sandia, physicist Frank J. Zanner realized a few years ago that the specialty metals industry wasn't doing the research needed to create the next generation of materials. So he helped form a new consortium of 10 specialty-metals companies plus Sandia to develop better materials in everything from jet engines to surgical implants.

The prospect of government scientists getting into bed with industry does have at least one potential peril. Senior Administration officials, including White House Chief of Staff John H. Sununu and Budget Director Richard G. Darman, are fierce foes of government funding for specific technologies and industries. At the Defense Advanced Research Projects Agency, for example, Director Craig I. Fields was fired earlier this year after arguing that Uncle Sam needed to pour money into high-definition television and other future technologies. So far, Watkins has escaped being tarred with the industrial-policy brush, despite setting up two national lab-industry consortiums this summer. "If Fields had done that, he would have been fired a second and third time," marvels one Senate aide.

'PUFFERY.' Still, the labs are waging an uphill battle. It's unlikely their new roles will make up for imminent defense cuts. "We need to give our best possible shot to pulling the federal labs into competitiveness issues," says William D. Phillips, associate director for industrial technology in the White House. "But there will not be a hell of a lot of money for new programs."

Nor can the labs point to what they've already done for taxpayers with their billions in past funding. Civilian research, including expensive forays into alternative energy, has yet to pay off. To University of Texas chancellor Hans M. Mark, a member of Watkins' assessment committee, the claim that the labs can boost U.S. competitiveness is just "puffery." And environmental research at the labs hasn't even provided tools to tackle the immense problems at the Dept.'s own weapons factories, let alone handle the nation's pollution.

To make matters worse, some of the facilities at the national labs are aging, and budget cuts could put them even further behind. "There are some hard choices to make," says Cherri Langenfeld, director of technology policy at DOE. In short, unless the labs prove that they can tackle new missions such as cleaning up the environment or helping U.S. industry, they could become yet another relic of the cold war.

By John Carey in Washington

ENVIRONMENT

A DATA BASE THAT TRULY IS 'GARBAGE IN, GARBAGE OUT'

The EPA wants to build industry a nationwide waste exchange

One man's waste is another man's resource. A tiremaker's rubber scraps, for instance, could be used in making highway asphalt—if only a match could be arranged. Now, the Environmental Protection Agency plans to encourage that by creating a national data base listing everything from plastics to potato peels.

With landfills overflowing and environmental awareness rising, a nationwide waste exchange makes sense. Some companies could avoid high disposal fees, while others could get raw materials cheap. And the idea is easy to implement: A system that anyone could use via a personal computer will cost less than $100,000 and be ready by early 1991, says Myles E. Morse, the EPA official heading up the project.

JAMES BERRY: TURNING SCRAP INTO POTPOURRI

The idea isn't new—there already are some 18 regional nonprofit, but noncomputerized, waste exchanges in the U.S. and Canada. But, says Jerry E. Henderson, who runs the Industrial Materials Exchange in Seattle, "the concept still hasn't caught on well." Corporate purchasing agents, he adds, tend to "buy exactly what was ordered," not scrounge for second-hand stuff. Proponents say the EPA's national focus might help. "It could get more companies involved," says Lewis M. Cutler, who heads Northeast Industrial Waste Exchange Inc. in Syracuse, N.Y.

COMMON SCENTS. On its $150,000 annual budget, Cutler claims, his exchange saves companies in six states $3 million a year. He cites an upstate New York lumber company that used to spend $575 on hauling and "tipping fees" each time it dumped a truck of scrap wood in a landfill hundreds of miles away. Now, for less than $200, it takes each load t
Natural Products Corp. in Shippensburg
Pa. That company gets the wood fo
free and grinds it into a gift item calle
Potpourri, an assortment of scente
chips used as an air freshener. Say
company President James W. Berr
"The exchange helps our bottom line."

It also helps companies do the righ
thing. Henderson tel
how Clorox Co. liste
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over cat litter in his ca
alog. Some went to hu
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Waste exchange eve
works for some hazar
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are a big problem
About 270 million ton
of this gunk are create
in the U.S. each yea
twice the tonnage o
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fills. "Most of the mat
rials we exchange, pe
ple don't think there
a market for," says Je
frey L. Dauphin, dire
tor of the Great Lakes
Midwest Waste Ex
change in Grand Rap
ids. Sludges, he say
often contain traces o
nickel and aluminum
which can be extracted. Other loathsom
liquids have fans, too. A Cleveland com
pany recently advertised for "used o
unused industrial lubricants, grease
motor oils, and hydraulic fluids."

In the past, it has been hard to fin
homes for such stuff, partly because n
one wants to hold on to it until one o
the many bimonthly waste-exchange ca
alogs comes out. In fact, companies ar
required by law to dispose of hazardou
waste within 90 days, or face big fines
With daily updates, the EPA data bas
would end the delays. That would hel
preserve the greenness of the enviro
ment—and the bottom line, too.

By Evan I. Schwartz in New Yor

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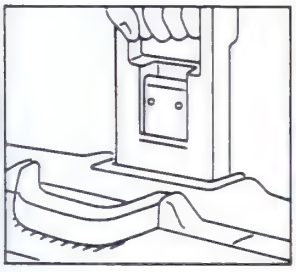

luggage cart. You simply pull up the long retractable handle and you're ready to load up the rest of your luggage and be on your way.

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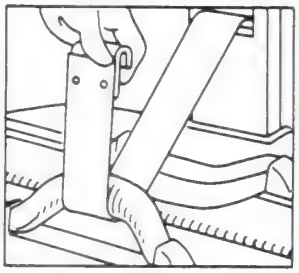

else you want to get off your back. Then hook the strap back to the handle and you're off.

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Commentary/by Naomi Freundlich

NO, SPENDING MORE ON AIDS ISN'T UNFAIR

Just a year or so ago, it would have been political suicide for a scientist, politician, or journalist to speak out against increased spending for AIDS research. After a regrettably slow start, the federal government took up the campaign in 1983 and has steadily increased research funding in an effort to curb the deadly epidemic. By the end of fiscal 1989, AIDS had garnered nearly $2.5 billion in government funds. And this year, the National Institutes of Health will kick in $740 million more. Last month, Congress allocated an additional $875 million for states to use for AIDS treatment.

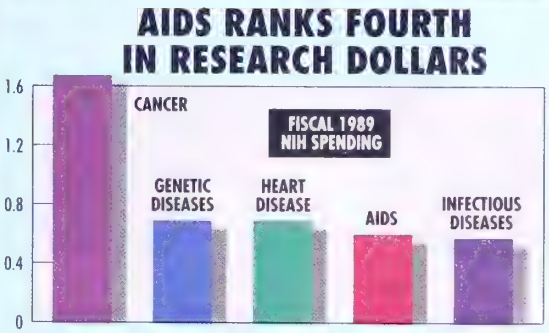
Now, as activists stage protests demanding even more money for AIDS, a backlash is forming. For a few critics, the attack is a value judgment on the lifestyles of AIDS sufferers. Other critics just question whether AIDS research should be such a high priority. Politicians from rural states, for instance, complain that the funds Congress is allocating for AIDS can't be used to fight other diseases. And there is growing resentment among some cancer and other non-AIDS researchers.

They charge that a project without a mention of AIDS in the title runs an unfair risk of getting turned down. An Office of Technology Assessment report released last April shows how pervasive that feeling is. Of some 148 scientists who answered a poll on AIDS research, nearly half complained that too much funding has been diverted to AIDS. This year, some 1 million people will die of heart disease, and an additional 500,000 or so of cancer. So why, the argument goes, spend so much on a disease that has killed just 83,000 Americans in nine years?

IN FOR A SHOCK. It doesn't take much digging to come up with the answer. Heart disease and cancer occur at a fairly stable rate. AIDS, by contrast, is an infectious disease and can spread rapidly through a population. In fact, the number of cases is expected to triple in the U.S. by 1993. And in the next decade alone, doctors will be treating a million or more people who are already infected with HIV, the virus that leads to AIDS.

Beyond that, the most recent figures from the Centers for Disease Control in Atlanta show that the malady is no longer confined to gays and drug users. Countrywide, the ratio of men to women who carry the HIV virus has dropped from 11 to 1 early in the epidemic to close to 3 to 1 today. In some rural areas, says Dr. June E. Osborn, dean of the University of Michigan's School of Public Health and chairwoman of the National Commission on AIDS, the ratio is closer to 1 to 1. Because the number of people infected with HIV in these rural areas is growing faster than in urban centers, that raises the specter of a heterosexual epidemic such as is now sweeping parts of Africa. And unlike cancer and heart disease, which usually strike older people, AIDS is a disease of the young. Some 82% of its victims are below the age of 44—in the most productive years of their lives.

If all this isn't reason enough to fund AIDS work, there is one more factor. According to Osborn, AIDS research is yielding a wealth of knowledge about viruses, cancer, the brain, and, most important, the immune system. "We have already learned many broadly important facts about how the body works, and there have been more spin-offs for cancer and other diseases than for AIDS directly," she says. For example, she adds, before AIDS, there was only speculation that the immune system helps fight off cancer. Now, boosting the body's defenses has become a key part of cancer research. The OTA report came to the same conclusion, citing benefits in public health, epidemiology, and basic science from AIDS research.

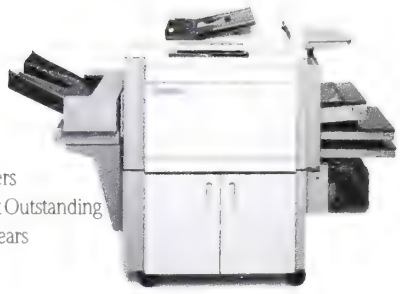


SMALL PIE. If there is a problem of scarce resources, moreover, it's not that money used for AIDS is being taken away from cancer and heart disease. It's true that the AIDS share of the NIH budget is rising rapidly. Funding for AIDS is growing 23% this fiscal year, while support for non-AIDS research is rising by only 4.4%. But William F. Raub, acting director of the NIH, says there is no guarantee that AIDS money would have gone to other diseases. More likely, it would have been used elsewhere in the federal budget, he says.

The problem he and others see is too little funding for biomedical research in general. The U.S. spent $600 billion last year on health care—but just 2% of it went to research on disease. Only one-quarter of the research grants submitted to NIH are now approved, compared with 60% in 1975. That's because the funding pie is growing slower than both the cost of research and the number of scientists clamoring for a slice. As a result, young investigators are less able to get research funds, and even established researchers are leaving basic science to work in industry or to practice medicine.

For many researchers and other critics, AIDS funding is a convenient target. But ultimately, the real issue is how much should be spent on biomedical research. Giving AIDS short shrift while that question is hashed out would be a tragic mistake.

Six Ways To Recognize A Workaholic.



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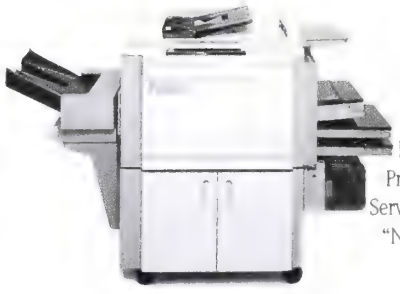

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Developments to Watch

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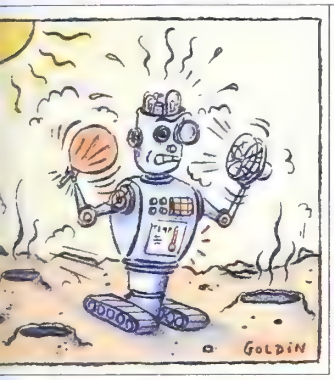
ROBOTS THAT LOOK OUT FOR NO. 1



Should robots and other "intelligent" machines have closed or open minds? That's the crux of a debate raging within the artificial intelligence community. According to the traditional view, smart machines should interpret the world around them on the basis of models programmed into their computer brains. But, retort detractors, what happens when a robot encounters some unforeseen contingency?

To contend with unpredictable conditions—such as exploring space—robots need survival instincts, asserts Ronald Arkin, a computer scientist at Georgia Institute of Technology. Instead of blindly following instructions that relate only to an artificial world, a robot should be able to assess its situation in the real world. So, if the microchips in a robot surveying Mars begin to overheat, it should know enough to find shade and cool off. To demonstrate the concept, Arkin has built a prototype mobile robot called George. It has rudimentary instincts modeled after the fight-or-flight hormonal systems in mammals.

THIS 'FURNACE' OUTCOOKS THE SUN

You can start a fire with a magnifying glass by focusing the sun's rays on something that burns readily. But even the best lens can't come close to matching the light-concentrating efficiency of the new solar collector at the University of Chicago. In fact, it actually improves on the sun itself. Its beam packs 72 watts of energy per square millimeter vs. 63 watts per square millimeter on the surface of the sun.

Such potent "solar furnaces" could drive lasers or fuse new and stronger composite materials, predicts Roland Winston, head of the university's physics department and leader of the team that built the solar collector. The furnace's intense heat—perhaps up to 10,000F—may also provide a safe way to dispose of hazardous wastes. The heat would break down the toxic molecules and even allow recovery of useful byproducts.

The solar furnace's efficiency stems from so-called nonlinear optics. The sunlight from a 16-inch telescope mirror is focused into a "light funnel"—a cone of sapphire. As the sapphire funnel further concentrates the light, the rays scatter. Paradoxically, this enables them to be packed tighter than with a lens, which passes the light through in straight lines.

AN ANTIBODY THAT MAKES POLYPS POOF

When cells in the colon grow into pendulous structures called polyps, it's time to worry. In some cases, the polyps remain benign. But some can turn into deadly colon cancer, which kills more than 60,000 Americans a year. People afflicted with polyps, such as former President Ronald Reagan, thus require regular checkups and surgical removal of any suspect growths.

Now, there may be a much simpler way to get rid of polyps—through chemistry. While working on methods of stimulating laboratory cultures of colon cells to grow into polyps, researchers Sanford D. Markowitz and James K. V. Wilson at Case Western Reserve University discovered that the altered cells produce unusual amounts of a substance called transforming growth-factor alpha. So they treated the polyps with an antibody that blocks the growth factor. The results were startling: The polyps simply disappeared.

Next, Markowitz and Wilson hope to figure out why colon cells suddenly start to make the growth factor in the first place, which could lead to a preventive treatment. They also plan to test the antibody on people with polyps.

THERE'S OIL IN THEM THAR COMPUTER TAPES

The Middle East crisis is spurring the search for new deposits of black gold. Some of the most fruitful finds are turning up not in Alaska or the Gulf of Mexico, but on computer tape. Oil companies have mountains of tapes that contain the data from many years of seismic explorations—the signals recorded by survey teams when they set off explosive charges to get a radar-like image of subterranean rock formations. The explosions send shock waves into the ground, which bounce back differently depending on the type of rock they hit.

Interpreting the echoed data used to be more art than science. As recently as 1985, six out of seven oil wells turned up dry. Then came computer-aided exploration technology, or CAEX, pioneered by Houston's Landmark Graphics Corp. Its latest CAEX systems can transform seismic data into images so realistic that rock layers saturated with water can often be distinguished from those containing oil or gas. As a result, says Landmark President C. Eugene Ennis, some customers are finding more oil by exploring their computer-tape warehouses than by making new seismic surveys.

A STEP TOWARD MORE SENSITIVE BIOSENSORS

When it comes to monitoring the body, Mother Nature makes the best sensors. Enzymes, for instance, can detect the presence of a solitary molecule of sugar in the blood. That's why scientists are marrying biology with microelectronics to create devices known as biosensors. But the typical device has an Achilles' heel: To ferry signals from a sensing enzyme to a microchip, a sort of chemical shuttle is needed inside the sensor—and if this chemical leaks out, it can render the sensor useless and possibly harm the person.

At the University of Texas at Austin, chemical engineer Adam Heller has an elegant alternative. He "solders" enzymes directly to a microchip's electrodes. The key is a large molecule that binds tightly to both the enzyme and the electrode—and acts as the conduit for signals when the enzyme spots its target. "Our dream is to implant blood sensors that are connected to insulin pumps and regulate the blood glucose level" in diabetics, says Heller. Such devices could also be used to control fermentation and in a variety of industrial processes.

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BUILT TO LAST—UNTIL IT'S TIME TO TAKE IT APART

With 'design for disassembly,' companies are doing their bit to make recycling less of a burden

Problem: You manufacture autos, computers, washing machines, refrigerators, even teapots—complex, durable products. You use plastic, lots of it. But plastic waste is piling up all over the country. Social and political pressure to recycle the material is growing fast. What should you do?

Solution: Design for disassembly. Simplify parts and materials and make them easy and inexpensive to snap apart, sort, and recycle.

Assemble for *dis*assembly? Construct to *de*struct? Counterintuitive as it may sound, design for disassembly is hot. If the 1990s is the decade of the environment and recycling, then taking things apart efficiently may soon become as important as putting them together right.

Whirlpool, Digital Equipment, Electrolux, 3M, and General Electric are just a few of the corporate giants beginning to incorporate design for disassembly, or DFD, in their thinking and their products. "DFD is one of the smartest things we can do," says David Gresham, director of design at Details, a new division of Steelcase Inc., headquartered in New York, that specializes in innovative, personalized office products. "It promises to make recycling cost-effective for all kinds of complex products."

Europe, years ahead of the U. S. when it comes to "eco-angst," is also ahead on design for disassembly. Electrolux Corp. already has a DFD dishwasher on sale in Italy through its subsidiary, Zanussi. But the leader of the DFD pack is BMW. Its spiffy two-seater, the Z1, has an all-plastic skin that was designed to be disassembled from its metal chassis in 20 minutes. The $55,000 limited-production car, which currently is being sold only in Europe, has doors, bumpers, and front, rear, and side panels made of recyclable thermoplastic supplied by GE Plastics. "The Z1 was the first real DFD produc designed to be disassembled and recy cled," says Charles Pelly, president c Designworks/USA, a California produc design house. "It is a heroic try."

NO SCREWS. BMW also has a pilot disas sembly plant where it chops apart fiv standard cars a day to learn new tech nologies for DFD. Some lessons are obv ous, if widely disregarded: Glue an screws, for example, are enemies c DFD. "Pop-in, pop-out" two-way faster ers are the way to go. But some of th lessons are revelations: At BMW, it i now becoming *verboten* to use dozens c different kinds of plastics in manufac turing because it makes sorting exper sive and the reuse of materials almos impossible. "We have 20 different sort of plastics in a typical car," says Arn Eisenhofer, director of BMW's DFD disas sembly plant in Landshut, Bavaria "Five would be much better, and should be possible."

TEMPEST IN A TEAPOT

The plastic body is made in Vermont by injection molding. The metal heating element and switches are imported from Britain. The packaging is "green" and uses cardboard, not styrofoam

Composites are also enemies of recycing. They combine glass, metals, plascs, and other fibers, making coding and eparation of materials nearly impossie, and certainly uneconomical. Several ew minivans, including General Motors orp.'s Lumina APV and Silhouette, have xternal panels made of polymer, glass, nd other lightweight fibers. They're reat for saving weight and avoiding ist, but not for recycling.

One great surprise coming out of the MW experience with FD is the rediscovery repairability. In a rowback to the Tin zzies of the 1930s—hen cars and everying else were built to repaired—design for sassembly allows aus to be worked on ster and easier. The umpers and doors come off without ours of high-cost labor. "When labor osts went up and materials costs opped, with automation and injection olding and one-way fasteners, we beme a throwaway society," says David nompkins, director of industrial design Himont Inc., a U. S. manufacturer of ngineering plastics owned by Italy's emical giant, Montedison. "DFD is a ay of rethinking the whole idea now."

The U. S. is trailing behind Europe in FD by about a year, most experts say. ut, prompted by the introduction of ore than 800 pieces of environmental gislation in 1989, mostly at the state nd local levels, U. S. companies are benning to take recycling seriously.

Whirlpool Corp., for one, has a secret FD project under way in which the arts of a new appliance will be degned to be quickly taken apart with ase—and coded for easy sorting. "We e designing for disassembly as becomg the standard procedure for all our oducts," says Mach Gray, vice-presient for technology services.

EINCARNATION. Indeed, many U. S. comanies are beginning to see the "greeng" of products as a marketing tool. To ve people easy access to recycling inormation, 3M plans to put an 800 numer on all its products. "We are getting lot of requests from our customers for ecyclability," says Linda Keefe, head of orporate identity and design. The comany already has a resource recovery ogram that recycles film cases. "I see esign for disassembly as a way to help with this [recycling] in the future," ys Keefe.

Detroit, however, still doesn't. While FD is popular within the engineering nks of the Big Three carmakers, it asn't made much headway in the boardom. "Design for disassembly is in our inking," says Richard Klimisch, executive director of GM's environmental activity staff. "But our thinking doesn't suggest that we're going into the vehicle disassembly business." Detroit is waiting for new federal legislation on solid waste to fashion a program that complies with the rules. "We know the laws are going to change dramatically," says Klimisch. "It's only a matter of time."

GE Plastics, by contrast, is forging ahead. The $5 billion division of General Electric Co. serves the durable-goods market, working only with engineering thermoplastics, the kind used in the BMW Z1. Thermoplastics are so widely used that they are becoming a waste problem all their own. But unlike so-called thermoset plastics, the kind used to make such products as the red flashing lights on top of police cars, thermoplastics can be reheated and remolded. Like cats, they can have many lives. "Start with a computer, for example," says David L. Calhoun, general manager of new business development at GE Plastics. "You recycle the plastic material in that computer to form a car bumper. Then you recycle it a third time to form a two-by-four for a house wall."

BMW'S RACY ROADSTER Special elastic joints connect the plastic body components to a zinc-plated, unibody chassis. Doo side-sills, and panels are made of thermoplastic

'This is not easy stuff. Designing durable goods for disassembly is something of an oxymoron'

GE Plastics, in fact, already has buyback deals for thermoplastic with a number of automobile and computer companies. It reprocesses the material and sells it back to the manufacturer, competing with Dow Chemical, Du Pont, Hoechst Celanese, and other suppliers of virgin plastics.

REGRIND AND RESELL. Now, GE Plastics plans to set up a nationwide plastics recycling network through its own big distribution and servicing company, Polymerland Inc. Currently, Polymerland sells resins and other plastic materials. But in the near future, it will begin buying back recycled thermoplastics from all over the country, regrinding and recomposing the materials and reselling them to manufacturers at large.

None of this would make much sense, however, if GE had to tear apart products to get at the plastic material and recycle it. "The key for us is design for disassembly," says Calhoun. "That will make it cost-effective to segregate the materials in durable goods."

To that end, GE has set up a 50-50 joint venture with Fitch RichardsonSmith (FRS), one of the country's largest industrial design companies and a winner of some of the product-design profession's top accolades. GE Plastics' Calhoun is chairman of the joint venture, which is called Polymer Solutions. Thomas David, senior vice-president for marketing at FRS, is president.

The first of what is expected to be many DFD products from Polymer Solutions will hit the market any day now: an electric kettle, similar to the kind that

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is popular in Britain and Canada. Called the U Kettle (a play on "United Kingdom"), it boils water faster than a stove and is made of easily disassembled, recyclable parts. The U Kettle was designed for a London-based startup, Great British Kettles, which reasoned that with Americans growing more environmentally conscious, it should offer a product based on DFD.

While the idea was straightforward, the execution of the project was anything but. Designing for disassembly requires new technology and skills. When Polymer Solutions filled its first kettle model with water, it found that the handle wiggled. "Because we're snapping parts together, we have to have tolerances between parts that are very fine," says David. The team went back to the drawing board and tightened tolerances all along the line. "DFD is new to the tooling people, new to the engineers," says David. Adds Calhoun: "This is not easy stuff. Designing durable goods for disassembly is something of an oxymoron." Despite the troubles, Polymer Solutions is getting the U Kettle out on schedule this month, just six months from concept to product.

NOT SODA POP. Great British Kettles hopes to sell a half million of its U Kettles in the U. S., priced at less than $50, through upscale stores such as Nordstrom and Jordan Marsh. A second-generation kettle for the discount market is planned as well. And Polymer Solutions has 13 other products lined up that will be designed for disassembly, including items for the computer, communications, banking, and vending-machine industries. "The tea kettle was just a start," says Calhoun. "We are moving on to more sophisticated durables."

For all its initial success, one question still haunts DFD: What kinds of incentives will be needed to get consumers to recycle big, complex products? The U Kettle may come with a rebate of several dollars to entice people to break it apart and return it to GE Plastics. But what works for small appliances won't necessarily work for refrigerators or cars. It's one thing to ante up an extra nickel for a bottle of Coke and get the money back a week later at the supermarket counter. But turning a long-life, big-ticket item like a car into a huge returnable can of soda by adding, say, a $500 deposit to its price, could be marketing death.

While financial and technical problems get worked out for DFD, the clock on the plastic waste problem is ticking. Landfills are filling up, recycling laws are being passed, and the cost of dumping waste is going up. DFD may help keep those dumps from overflowing.

By Bruce Nussbaum in New York and John Templeman in Landshut, Bavaria

FNN TAKES THE OLD TICKER INTO BRAVE NEW WORLDS

The network plunges into prime time and market-data services

For a decade, Financial News Network has defied the doubters. When the cable channel was launched in 1981, critics sniped that there wasn't enough of an audience for purely nitty-gritty financial news. Short-sellers frequently ganged up on its stock, predicting that what few viewers FNN had would soon tire of its endless "infomercials"—commercials masquerading as investment-advice shows. Steadily, however, FNN has extended its reach to 35 million upscale households—and is scratching out a profit.

The next step? FNN is moving into new arenas. It is pushing into nighttime television and enlarging its radio network. And it is going after investors and market professionals with a smorgasbord of video and stock market data services. Says FNN President Michael Wheeler: "We want everyone to turn to FNN for money and business news—from the trader at Morgan Stanley to the taxi driver who listens to FNN reports on radio."

FNN PRESIDENT MICHAEL WHEELER: "WE HAVE ESTABLISHED THE BRAND NAME"

> Its new rival, CNBC, has picked up 17 million subscribers—but fewer than 4% are FNN households

FNN had to find new ways to grow. Its niche is narrow, and competition is rampant. Not only are the traditional TV networks expanding financial coverage, but there's also Ted Turner's Cable News Network, the 24-hour service that gets high marks for its money news. The biggest head-to-head threat, however, comes from CNBC, the Consumer & Business Channel, which was launched 16 months ago by NBC Inc. and others. The bet were that CNBC would easily outclass FNN and steal its viewers.

LOYAL VIEWERS. FNN was ready for the assault. Aside from adding glitzy new stage sets and beefing up its news crews, the network junked the infomercials and a failing home-shopping service. Last fall, FNN made its first push into prime time, with shows that run the gamut from art collecting and investing in wines to profiles of entrepreneurs. The new programming attracted more viewers—and helped triple FNN's stable of national advertisers.

While CNBC has gathered 17 million subscribers so far, fewer than 4% of FNN households are among them. Early on, Atlanta's Cox Cable Communications switched 1.3 million subscribers to CNBC

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ys a spokesman, because executives ink the mix of business and consumer rogramming could eventually attract ore viewers than FNN's. But in the st year, Wheeler says, FNN has seen st 0.5% more of its subscribers defect. We have established the brand name," says.

CNBC remains a long-term threat, however, particularly since there probably n't room for more than one financial annel. CNBC is assiduously wooing cae operators who carry FNN. "We think e're a good switch for them," says NBC President Albert F. Barber. That's ecause during the day, both services ok similar: Each features a stock ticker ross the bottom of the screen, live reorts from the various exchanges, and terviews with analysts and other exrts. (BUSINESS WEEK litors regularly appar on FNN. The magine also has an arngement with FNN in hich it swaps ad ace for commercial ne on FNN.)

At night, though, NBC tries to mimic etwork television hile FNN sticks to siness. CNBC's amorous mix includes nsumer magazines d medical shows, and r-ranging talk shows sted by Dick Cavett, orton Downey Jr., d John McLaughlin. *oseanne*, it's not. FNN probably smart to stay close to home. 's dabbling in soft stuff, too—but with business bent. *Power Profiles*, for inance, debuts in October and will focus movers and shakers such as Blackone Group's Pete Peterson and Mesa d.'s T. Boone Pickens. "It's our *Lifeyles of the Rich and Famous*," says ogramming chief Robert Regan.

Cable is a familiar battlefield, so the ime-time investment seems less risky an FNN's recent plunge into the highly mpetitive field of market-data serces. After a series of acquisitions, FNN w offers, among other products, a al-time stock-quote and portfolio-monring service for wealthy investors and video news network for institutional oney managers.

Wheeler's biggest bet, though, is on NN:Pro, a new stock service to be unched this fall. The company has insted a tidy $45 million in the project. It asts some nifty technology that will low the network to place FNN video rogramming on computer screens as rt of a stock-quote system for brokers and traders. Acquired from financially troubled Wang Laboratories Inc., the system allows customers to tap into stock data and other information data bases through a personal computer. FNN added a speaker and software that allows the user to divide the screen into sections—with FNN video in one corner, a stock ticker in another, and several news wires along the bottom. Says Wheeler: "This will be the MTV of the securities industry."

'MUST-HAVE SERVICE?' Others aren't so sure. For one thing, FNN:Pro is being introduced at a time when the securities industry is unplugging machines rather than adding new ones. And for another, it's not clear that traders will clamor for FNN's video reports along with their stock quotes. "If you walk into a trading room in energy and currency markets today, everyone's eyes are glued to CNN for what's happening in the [Persian] gulf," says Dennis Waters, a consultant and publisher of *Inside Market Data*, a newsletter that tracks the securities-information industry. FNN:Pro will compete against Reuters, for instance, which is able to sell its stock-quote system because it's packaged with an important news wire. Asks Waters: "Can FNN make the video so compelling that it's a must-have service?"

The new ventures, however, aren't what make FNN's stock tick. What does? The health of FNN's basic cable franchise makes it an attractive takeover target, says analyst Mark Riely of media research firm MacDonald Grippo Riely Inc. Buffeted by rumors, the stock traded earlier this year at a lofty $9, though it is now around $6. "FNN is valued very highly by the other players in the business," says Riely, "and it's the only remaining independent." Ted Turner actually struck a deal with FNN parent Infotechnology Inc. to buy its 47% stake in 1989, though the deal fell apart.

But so far, FNN is doing fine on its own. While the $115 million it pumped into new ventures and FNN's facelift flattened earnings for several years, the upturn has arrived. For fiscal 1990, ended in June, profits are expected to jump about 70%, to $5 million on $80 million in revenues. FNN has proved it can survive. Now, the question is: Can it keep doing more than that?

By Susan Duffy in New York

FNN'S LINEUP

- **FINANCIAL NEWS NETWORK**
  24-hour cable service
- **FNN BUSINESS RADIO**
  Reports on 100 stations
- **FNN:SPORTS**
  Weekend sports scores, news
- **DATA BROADCASTING**
  Handheld stock gizmos, institutional research service
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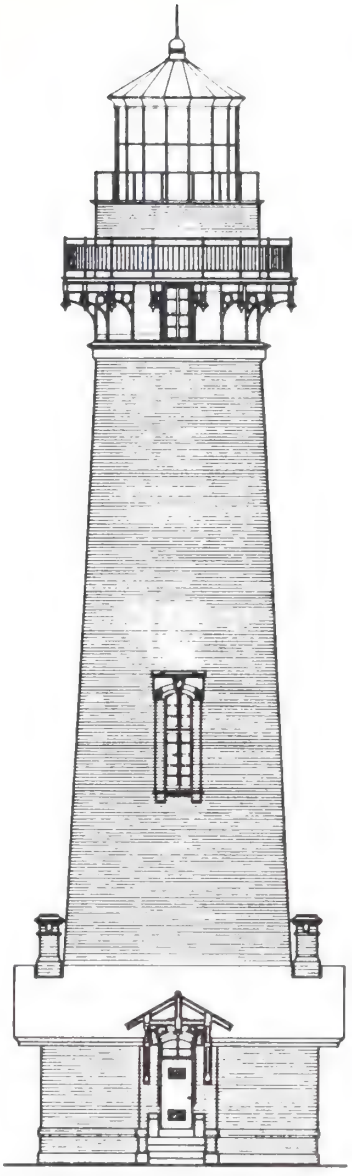

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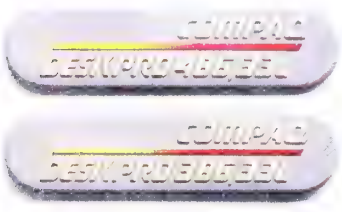

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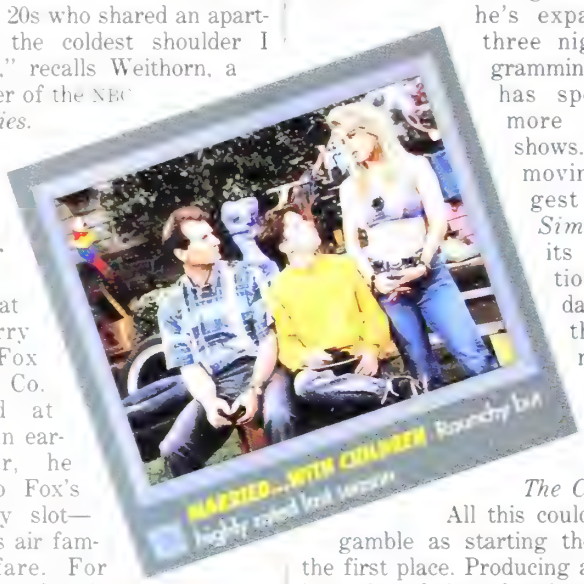
THE FOURTH NETWORK

FOX IS A HIT—BUT CAN IT TAKE ON THE BIG BOYS?

Hollywood producer Michael J. Weithorn figured Fox was his only bet. He was looking for a home for *True Colors*, a sitcom about an interracial marriage that merges two families, pitting an angst-filled white mother-in-law against a jive-talking black stepson. He decided not even to show it to ABC, NBC, or CBS, where a few years ago, he had circulated a pilot about a black man and a white woman in their 20s who shared an apartment. "I got the coldest shoulder I have ever felt," recalls Weithorn, a former producer of the NBC hit *Family Ties*. "No one," he explains, "could sell an interracial couple to their affiliates."



No one, that is, but Barry Diller. The Fox Broadcasting Co. chief jumped at *True Colors*. In early September, he slipped it into Fox's 7 p.m. Sunday slot—when his rivals air family-oriented fare. For Fox, the specter of an interracial family squabbling over the kitchen table *is* family entertainment. It's standard Fox: go with the unexpected, even the unthinkable. While the jury is still out on *True Colors*, Fox has already produced some surprising hits. Its raunchy *Married... With Children* finished regularly among the top-20-rated shows toward the end of last season, and its animated series *The Simpsons* is a frequent member of the top 10.

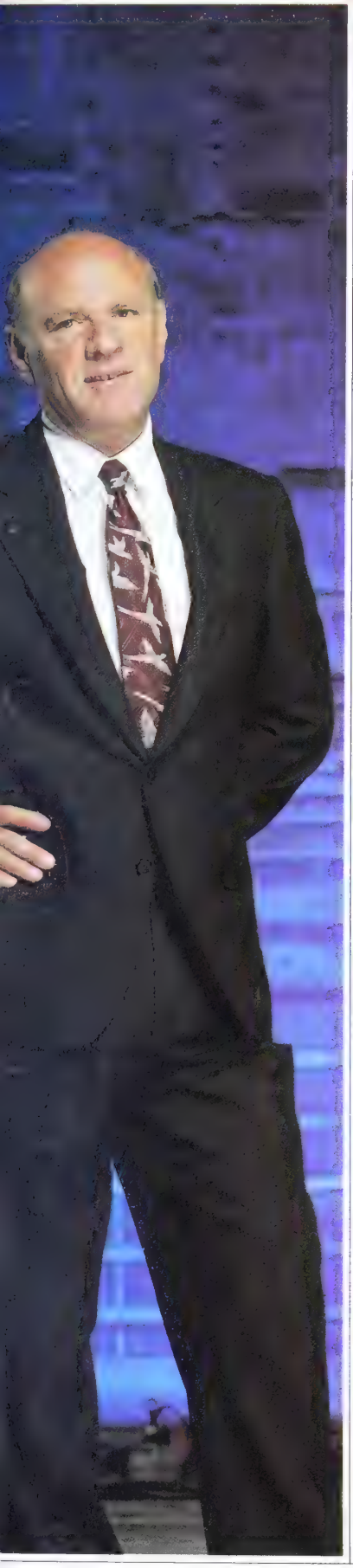
The upshot? While industry veterans said Diller could never make it happen, Fox has emerged as the nation's fourth network. It may be a ragtag band of seven Fox-owned stations and 126 independent affiliates—mostly dinky, low-power UHF stations. Yet it can now reach 91% of the country (compared with 99% for the three majors) and has finally wooed enough viewers and ads to turn a neat profit (chart, page 116). That's good news for Australian owner Rupert Murdoch, whose far-flung media empire is showing big losses elsewhere (page 121).

Now, Diller is pulling out all stops in his assault on the Big Three. This fall, he's expanding from three nights of programming to five. He has spent millions more on 10 new shows. And he is moving his biggest hit, *The Simpsons*, from its secure position on Sunday night into the Thursday night fray immediately opposite NBC's aging but No. 2-rated *The Cosby Show*.

All this could be as big a gamble as starting the network in the first place. Producing a few big hits in neglected time slots is one thing. But going head to head on two more nights, especially when the competition is finally taking you seriously, is quite another. Fact is, Fox could hit a rough patch this season. By spreading more shows across more nights, Fox will be hard-pressed to show the huge ratings gains of past seasons. "Up to now, Fox has been engaging in guerrilla warfare," says television consultant David Smith of Frank N. Magid Associates, a media consulting firm. "Fighting a broad, land-based battle is far different."

Besides, the Big Three have adopted some Fox tactics. Early on, Diller targeted Saturday and Sunday nights first be-

BARRY DILLER: GAMBLING ON FIVE NIGHTS OF PROGRAMMING



cause they were littered with TV's most uninspired shows. No longer. The other networks have filled up those slots with their own fresh new shows.

In 1988, Diller blindsided the Big Three when he aired his new lineup weeks before the traditional mid-September start of the TV season. Viewers, particularly kids, teens, and young adults, dumped reruns for Fox. Once exposed to Fox's hip, offbeat programming, they kept watching.

Now, though, the other networks are hip to Diller's game plan. Fox first got attention by flouting convention: Its *Married . . . With Children* provoked controversy with toilet jokes and gibes at the loose morals of Al Bundy's bimbette daughter. Its hit *In Living Color* is a black, more outrageous version of *Saturday Night Live.* Suddenly, everybody is trying to be provocative. Even CBS, which for years contented itself with staid stuff for older folks, is pushing the envelope: Its *Uncle Buck* specializes in flatulence jokes. And CBS Inc. programming chief Jeff Sagansky recently tried to deflect criticism over the first episode—in which a 6-year-old tells another kid: "You suck."

None of this scares Diller, although he is characteristically intense and fidgety as he reflects on his show-biz showdown. These days, he spends most of his time at his command post in the Fox studios in Hollywood, which is dominated by a huge board that details all of the four networks' schedules. And he clearly relishes the intensifying battle: "We could have taken the conservative approach—and maybe gone to four nights and steered clear of *Cosby,*" he says. "But that's not the way we intend to play this game." Diller's ultimate goal is to establish a seven-nights-a-week prime-time lineup, a one-hour network news show, some game shows, and maybe even soap operas.

The 48-year-old Diller has been girding for this moment for most of his adult life. The son of a wealthy Beverly Hills real estate developer, he worked his way up in true Hollywood fashion, starting as a mail clerk at the William Morris Agency. He got the job with the help of a neighbor, comedian Danny Thomas, after dropping out of both Stanford University and the University of California at Los Angeles. He joined ABC in 1967, first as a programming assistant. Rising quickly, he took over the programming chores and pioneered the development of made-for-TV movies and miniseries. One of his first big hits: *Roots.*

"He was the single most determined guy I ever saw," recalls ABC founder Leonard Goldenson. "He'd just as soon run through a door than open it." Gruff and impatient, Diller demanded long hours and unswerving devotion from his staff. As he would repeat at Fox, he hired bright young people, pitted them against one another in stormy closed-door sessions, and walked out with top-notch creative ideas. Among those who survived the ordeal was Walt Disney Co. Chairman Michael D. Eisner.

Operating out of a programming office above a tailor shop in New York, ABC quickly became a ratings force, rising to the top in the mid-1970s with such shows as *Happy Days* and *Laverne & Shirley.* In fact, Goldenson thinks Diller is repeating history. ABC also took off by playing to young, urban audiences. And as Diller has done with *The Simpsons,* Goldenson put his quirkiest show, the tongue-in-cheek western *Maverick,* up against the top-rated *Ed Sullivan Show. Sullivan* lost a few viewers, but ratings soared for *Maverick.*

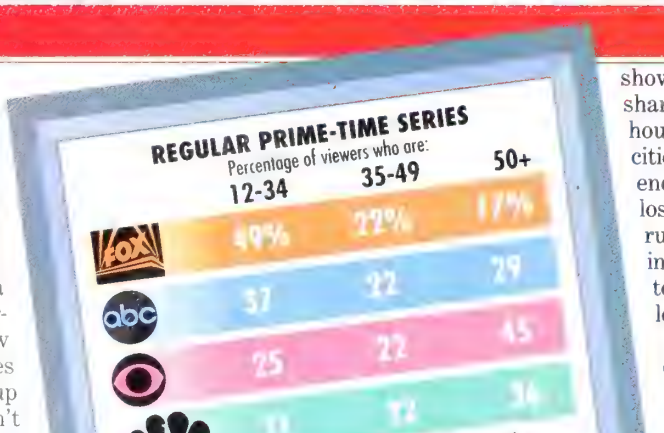
By 1974, Diller had jumped to Para-

mount Pictures Corp. He was joined again by Eisner, and the two tripled Paramount's profits within six years, making hit films such as *Raiders of the Lost Ark* along with top TV shows such as *Taxi* and *Mork & Mindy*.

Diller got the itch to start a fourth network in 1977, figuring he could launch it with new episodes of the cult hit series *Star Trek*. He began lining up affiliates. But advertisers didn't come running, and Paramount's parent, Gulf & Western Inc., pulled the plug. Diller quit in 1984 after an unrelated blowup with Paramount Chairman Martin S. Davis, and he joined Fox with a lucrative contract that gave him $3 million a year plus 25% of any appreciation in the then-struggling studio's assets.

'NO CENSORSHIP.' As the new Fox chairman, Diller found a kindred spirit in Rupert Murdoch. Murdoch controlled Fox after buying out his partner, oilman Marvin Davis, in 1985. Diller and Murdoch thought they saw trouble ahead for the Big Three, as prime-time audiences began defecting to independent TV stations and cable. So they began looking for stations that would form the backbone of a new network. Media baron John W. Kluge sold them his six Metromedia Inc. stations in 1986 for nearly $2 billion. Located in major cities, they would reach enough viewers to persuade advertisers to sign on.

By late 1986, Murdoch and Diller had lined up another 96 independent TV stations around the country. For an "indie," the idea of a new network was appealing: Rather than paying stiff fees for old movies and sitcom reruns, the station owners would get their programming free. In return, they had to give up eight of the eleven 30-second spots that are aired each hour.



Fox soon became a haven for TV producers who wanted to experiment. "Diller told me that I could do anything I wanted, that there'd be no censorship," says James Brooks, the creator of the acclaimed ABC show *Taxi*. Over lunch, Diller agreed to bankroll and air whatever show Brooks wanted to make. The result was *The Tracey Ullman Show*, a modest hit.

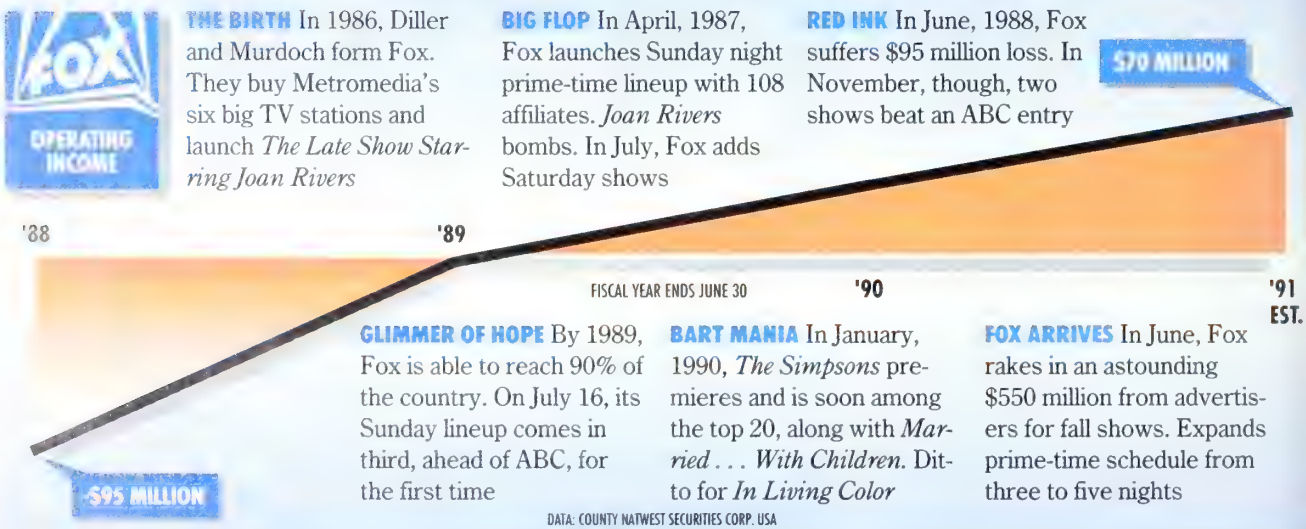
Brooks was joined by such well-regarded TV producers as *The A-Team* creators Steven Cannell and Ed Weinberger, who created the sitcom *Amen*. The producers, however, turned out to be hotter than the shows they did for Fox. Within a year of Fox's 1987 launch, its shows were hovering at a mere 2 share of the 91 million televisi households. Test patterns in ma cities got higher ratings. And by t end of its first full year, Fox h lost some $95 million. Worse y rumblings of discontent were co ing from Fox's affiliates, the cu tomers Diller and Murdoch cou least afford to lose.

The problem was that Fox er ed up copying rather than co peting with the other network shows. Eager to give their ne affiliates network-quality pr grams, Fox had served clones such as *Mr. Presider Karen's Song*, and *The Dir Dozen*. All of them bombed. the end of its first season, most we canceled.

But the angry letters Diller receiv from restless affiliates still hang some executives' offices. "They told that we were stupid, didn't know how run a network, and wouldn't know good show if we saw it," recalls Dill "And you know what? They were right

Fox's big break came in mid-198 when Hollywood writers went out strike. With the Big Three forced to r third and fourth reruns of their show America found *Married... With Ch dren, 21 Jump Street*, and other pre ously ignored Fox shows. They al found "reality-based" shows that use a tual news footage and few actors. F many viewers, the gritty *Americ Most Wanted* and *Cops* were a welcor relief from the ubiquitous slick c shows. Cheap to produce, they help Diller cut the average cost of his ha hour shows from $350,000 to less th $200,000.

FOX BROADCASTING'S CINDERELLA STORY



THE BIRTH In 1986, Diller and Murdoch form Fox. They buy Metromedia's six big TV stations and launch *The Late Show Starring Joan Rivers*

BIG FLOP In April, 1987, Fox launches Sunday night prime-time lineup with 108 affiliates. *Joan Rivers* bombs. In July, Fox adds Saturday shows

RED INK In June, 1988, Fox suffers $95 million loss. In November, though, two shows beat an ABC entry

GLIMMER OF HOPE By 1989, Fox is able to reach 90% of the country. On July 16, its Sunday lineup comes in third, ahead of ABC, for the first time

BART MANIA In January, 1990, *The Simpsons* premieres and is soon among the top 20, along with *Married . . . With Children*. Ditto for *In Living Color*

FOX ARRIVES In June, Fox rakes in an astounding $550 million from advertisers for fall shows. Expands prime-time schedule from three to five nights

DATA: COUNTY NATWEST SECURITIES CORP. USA

Ratings for *Married... With Children* and *21 Jump Street* moved into double digits, a rarity for Fox. And by late 1987, Fox showed its first profit, a modest $400,000 for its second quarter. More important, Fox had found a formula. By introducing its new shows during the summer, it was able to build hits without much competition. Since 1988, in fact, Fox's competitors have lost 7.7% of their audience during the summer months, according to Larry Gerbrandt, a senior analyst with Paul Kagan Associates Inc. in Carmel, Calif. Barry Diller's crew, says Gerbrandt, has picked up almost all of the defections.

BONANZA. The rest is ratings—and advertising—history. The *Cosby* matchup was not only an attention-getter but also one designed to help bring in ad revenue. Thursday is an important TV night for retailers—and the big movie companies. And the *Simpsons* commands a breathtaking $300,000 per 30-second spot from national advertisers, roughly 40% more than ABC's *Monday Night Football* and only slightly behind *Cosby*. That was no small factor in the bonanza Fox enjoyed during this summer's commercial time-buying period for next season. Advertisers threw about $550 million Fox's way—almost twice last year's take. That may not be much compared with top-rated NBC's $1.5 billion haul or the $1.4 billion raked in by CBS. But both NBC and CBS lost billings from the year before—to ABC, Fox, and cable. And the $900 million sold for CBS's faltering prime-time schedule puts it perilously close to being overtaken by Fox not too far down the road.

Advertisers had been looking for a real alternative to the Big Three. Their standard beef: The three networks keep losing viewers—and they keep raising prices. Advertisers were particularly incensed during this summer's time-buying spree, when ABC and NBC announced they would ignore traditional ratings guarantees—while asking for double-digit rate increases. "That scared dollars to Fox," says American Telephone & Telegraph Co. advertising director Robert Watson. But the upstart's biggest draw, he says, is its young, free-spending audience. Fox has grabbed nearly 50% of TV viewers aged 12 to 34. Says Fox advertising sales chief Jon Nesvig: "We're selling the next generation of customers."

Fox Broadcasting is finally out of the red. After past seasons produced $128 million in losses, Fox made $35 million in operating income on $320 million in revenues in the year ended June 30. Murdoch projects earnings at $70 million to $80 million on more than $620 million in revenues in the current year.

THE *SIMPSONS*, DEVELOPED BY COUNTERCULTURE ARTIST MATT GROENING, COMMANDS A BREATHTAKING $300,000 PER 30-SECOND SPOT

Along the way, movie studios Paramount and Universal tried to outfox Fox. They hankered to control outlets for their movies and TV shows and tried to launch a fifth network. Diller sent executives scurrying to deliver some tough talk to the affiliates—warning them not to defect, even on those days when Fox wasn't programming. The threat? That Fox would cut them loose. "We reminded them that we were going to get to seven nights soon enough," says Jamie Kellner, Fox Broadcasting's president. The rivals didn't get anywhere and pulled out. More recently, Fox pressed affiliates into passing on Walt Disney Co.'s weekday afternoon cartoon show, *Peter Pan*. Disney slapped Fox with a lawsuit.

INDIES' DELIGHT. Disney may be irked, but Fox's affiliates couldn't be happier. The network's higher ratings have boosted profits. Like most indies, they were saddled with pricey shows and low ratings. Now, according to Pat Mullen, station manager of WXMI in Grand Rapids, his Fox affiliate will see earnings increase by 30% this year despite generally flat ad spending. That's because he gets Fox programs for free and can charge more for local spots for its hits. "I can get $2,000 for 30 seconds on *Simpsons*," says Mullen. "That used to be an entire Sunday night for me."

And improved ratings have generally made it far more attractive to own a Fox affiliate. Well-heeled investors such as TV producer Norman Lear and record executive Quincy Jones have focused on buying up Fox affiliates in the past two years, confident that margins will begin to edge toward the 50% other network affiliates can command. "Just being Fox increases the value of an independent," says Barry Barker, who bought Fox affiliate KDNL in St. Louis and is looking for more.

Fox's success has also been a windfall for its own seven TV stations and its movie studio. The stations earned more than $134 million last year, a 23% hike over the previous year. The chief reason for the improvement: putting on more Fox network shows, for which advertisers pay the freight. Then there is Fox's studio, which this year will produce one-third of the 15 shows and all of the movies that the network will air. But if it means more money for Fox, the studio sometimes bypasses its own TV network. It produces *L. A. Law* for NBC and syndicates its popular *A Current Affair*.

Television producers that stuck with Fox are now cashing in on the syndication market, where highly rated sitcoms still command hefty payments. Columbia Pictures Entertainment Inc.'s TV unit, which made *Married... With Children*,

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16 Screens And A Cast Of Millions

Look closely at these images of Ellis Island. You may be staring at one of your ancestors, or a spot where they once stood.

These sights and sounds were the first experiences that seventeen million immigrants had when they came to America to realize a dream. A dream of a better life for themselves and generations to come.

NYNEX® is helping to keep that dream alive for all Americans by capturing these images and thousands more, on an interactive videowall. This interactive experience is part of the learning center NYNEX donated to the Ellis Island Museum of Immigration, to be managed by the National Park Service. Visit Ellis Island, and experience the spirit of our ancestors through the technology of today.

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will probably clear more than $100 million this fall from selling reruns of the show. "Don't let anyone tell you this is a startup network any longer," says Gary Lieberthal, who heads the Columbia TV unit. "Not with the kind of money we're going to make on this show."

How much larger Fox will grow is still unclear. The Big Three are restricted under 1970 rules by the Federal Communications Commission that forbid them to own and syndicate any shows that they air. The rules, however, allow newcomers such as Fox to own and air up to 15 hours of programming.

On May 4, the FCC gave Fox a one-year exemption, allowing it to program up to 18 hours a week. That's enough for five nights a week and weekday and Saturday morning cartoons. Fox argued that its very survival was at stake. By early 1991, the regulators should decide whether to approve Fox's request to increase that to 30 hours.

The Big Three have vehemently fought any change that would allow Fox the added hours. "It's unfair and uncompetitive," says NBC Inc.'s Ellen Agress, vice-president for legal policy and planning. "We think it's ridiculous that Fox is trying to portray itself as a poor little emerging business," she scoffs. "It owns as many TV stations as we do, has a major production studio, is a major syndicator, and has the might and muscle of News Corp. behind it." Meanwhile, the networks are also asking to be freed from the 1970 rules.

If the FCC rules against Fox, says Diller, he would shrink back to 15 hours rather than lose the rights to syndicated shows such as *M*A*S*H* and *L. A. Law*. That would still be enough to air prime-time programs on all seven nights, giving up any thought of Saturday cartoons, game shows, and news.

How long can Fox continue its hot streak? Even Diller, known for hyperbole, is cautious. "What we are doing is a risk," he says, "and there is going to be a long, difficult road ahead of us." Does he think *The Simpsons* can overtake *The Cosby Show* on Thursday nights? No. But he does think that when the aging *Cosby* eventually goes off the air, Fox could inherit the night.

A solid second on Thursday night still means a lot of money for Fox. But that doesn't mean everyone agreed with the decision. The idea to move *The Simpsons* was first raised by Murdoch this summer and quickly seconded by Diller. "Everyone else thought we were on an ego trip," recalls Murdoch. "But Barry and I voted our shares, and that was it."

For *The Simpsons*' Thursday night debut on Aug. 23, Cosby came out swinging with a special show, complete with highlights from best previous shows and a special intro by the star. Bart and his scruffy family finished a respectable second, luring 16% of TV viewers, compared with 28% for the Huxtable clan. But that's still a far cry from the 24% *The Simpsons* had averaged the previous three Sundays.

Fox has predicted to advertisers that *The Simpsons*, the cartoon show developed by counterculture artist Matt Groening, will be seen in 27% of the homes using TVs on Thursday nights. That's about the same as on Sundays. Advertisers generally disagree. Paul Schulman, one of the industry's savvies media buyers, says it will lure 19% o the audience, although it will steal som younger viewers from *Cosby*. "I for on am worried," says James Brooks, wh produces *The Simpsons* and who argue against the Thursday move. "I have ne er had a show that has done better afte it has been moved."

Indeed, Fox probably killed off one o its early hits, *21 Jump Street*, by mo ing it from Sunday to Monday night And it deep-sixed *The Tracey Ullma Show* by moving it fro Sunday to Saturday. Bu neither show was *The Simp sons*, which has becom such a favorite that singe Michael Jackson recentl asked Diller for a cutout o Bart Simpson. Fox complie painting a glove on one o the character's fists.

WATCH THE FLOPS. Thursda is only one of several risk nights on the Fox schedul It still can't generate sizabl ratings on Monday, where has canceled *21 Jum Street* and *Alien Nation* i favor of movies. And it trying to lure male aud ences to Friday night b moving *America's Mos Wanted* from Saturday.

Fox's biggest proble now is delivering the ave age 7% market share that has promised advertiser Fox currently averages we above that on Sundays bu is only just above it o Saturdays and Monday Adding two new night could drag all the show numbers down. Considerin that three out of four ne shows flop, and that Fox debuting 10, that's a rea possibility. As insurance, th network is holding in r serve nearly one-fourth o its ad time and would give it back t advertisers if it missed its targets.

In the end, Fox's biggest hurdle ma be success itself. In its early days, afte all, it could afford to alienate advertiser with racy, off-the-wall stuff. It had s few to lose. As it becomes more succes ful and attracts more advertisers, it going to be harder to take such chance "Now that Fox is a network with a cap tal 'N'," predicts former production chie Garth Ancier, now at Disney, "they ar going to play it safer." Maybe. But wit Diller calling the shots, don't count on i

By Ronald Grover in Los Angeles an Susan Duffy in New York

FOX'S NEW FARE

SHOWS COMING OUT THIS FALL

- **TRUE COLORS** Interracial couple merges families
- **CLASS OF BEVERLY HILLS** Minneapolis kids meet rich hipsters
- **AGAINST THE LAW** Iconoclastic lawyer who will do anything to win
- **AMERICAN CHRONICLES** *Twin Peaks'* David Lynch turns camera on America's quirkiest people, places, and events
- **D.E.A.** Hardhitting docudrama about feds who fight drugs

DATA: FOX BROADCASTING CO.

BART SIMPSON COULD PUT MURDOCH'S SKY TV IN ORBIT

Will the Brits take to obnoxious, spiky-haired Bart Simpson and his weird family? Rupert Murdoch sure hopes so. He's counting on *The Simpsons* and other American hits to help jump-start Sky Television, the media mogul's struggling British satellite broadcast system. Courtesy of Murdoch's Fox television network, *The Simpsons* were heard and seen in British living rooms for the first time on Sept. 2. Although audience data won't be available for weeks, one measure of the show's early following already is in: After the program aired, dozens of people purporting to be named Simpson jammed the switchboards at Sky seeking advertising posters.

The Simpsons launch, accompanied by a $2 million promotional spending spree, is part of Sky Television's aggressive fall programming onslaught. It includes a slew of movies, sitcoms, and sports, and is designed to entrench Murdoch's Sky as a serious competitor to the BBC and independent television.

Adding *The Simpsons* to the Sky lineup, along with other Fox hits such as *21 Jump Street* and *In Living Color*, has larger implications for the Murdoch media empire. If Murdoch gets his way, the American and British operations will become increasingly dependent on each other for program origination—as well as for cost-sharing. "There will be more and more integration," he says. Sky gets product from Fox's TV unit, as well as movies from the Twentieth Century-Fox Film Corp. studio. There will also be joint airing of rock concerts and sporting events, says Murdoch. And one day, Sky could feed product to a potential Murdoch cable channel in the U. S.

HEMORRHAGING. But first things first. Murdoch must get the fledgling Sky on its feet. Since the launch 19 months ago, he has taken a keen interest in everything from programming to scheduling decisions. Until September, when he turned over the top job to a veteran Australian TV executive, Murdoch spent much of this year as the man in charge.

He had little choice: While the gamble at Fox appears to have paid off, Sky is hemorrhaging. The sports, pay-movie, general entertainment, and 24-hour news operation suffered $294 million in operating losses in 1989 and an additional $180 million in fiscal 1990, which ended June 30. For that period, Sky played a big role in parent News Corp.'s 70% drop in net profits, to $281 million, on $7.2 billion in revenues.

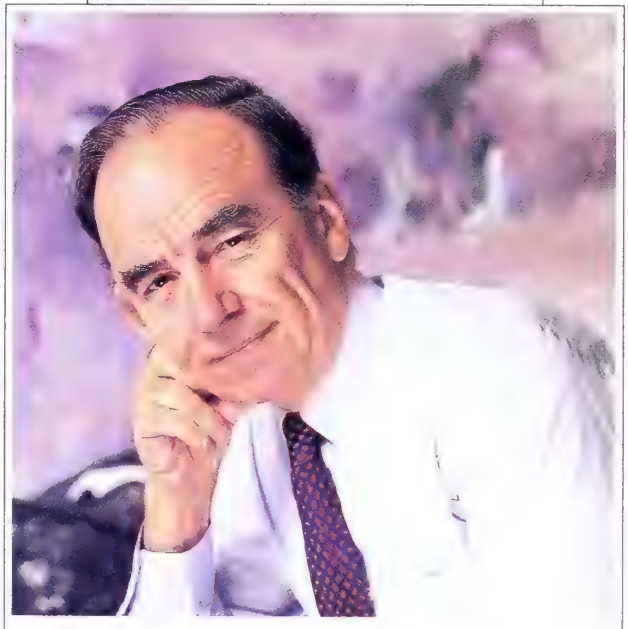
The challenge is formidable. Not only has Sky been seeking to introduce conservative British viewers to a new technology but it also has been racing to sell its satellite dishes and is engaged in a bidding war for movies against a new and well-heeled competitor, British Satellite Broadcasting Ltd. Launched in April, the five-channel BSB got an astonishing $2.5 billion in backing from British media heavyweights Pearson, Reed International, Granada, and French conglomerate Chargeurs. Now, Sky and BSB face a near-recession in Britain and a sharp downturn in advertising spending.

So far, Sky claims to be reaching 1.3 million houses in Britain—940,000 of them via satellite dishes, the rest on cable systems. BSB says it has 66,000 dishes and 360,000 cable viewers. For both, there are some encouraging signs: Market researchers—and even advertisers—are sitting up and taking notice. "The steady growth is beginning to convince advertising agencies and advertisers that this is a medium that's here to stay," says Derek Bowden, media director for Saatchi & Saatchi Advertising International.

WILDLY POPULAR. If Sky can maintain the momentum, Murdoch figures he can break even within 18 months, when 3 million homes will be tuned in to Sky. "By mid-1992, there will be at least a small profit," he predicts. Yet such an optimistic outcome may depend on the impact of BSB's counterpunch—and on whether two satellite operations are, as many in the industry still believe, one too many.

BSB is now selling as many dishes a month as Sky, according to London's Continental Research. "We are accelerating into the market," boasts BSB's chief executive officer, Anthony Simonds-Gooding. This fall, BSB's lineup will include the wildly popular movie and cartoons *Teenage Mutant Ninja Turtles*. For Bart Simpson—and Rupert Murdoch—that has the makings of just the kind of battle they will relish.

By Richard A. Melcher in London, with Ronald Grover in Los Angeles



MURDOCH'S NEWS CORP.

TOTAL REVENUES: $7.2 billion
TOTAL OPERATING INCOME: $1.1 billion

NEWSPAPERS
LONDON TIMES, AUSTRALIAN, BOSTON HERALD
$535 Million

MAGAZINES
TV GUIDE, SEVENTEEN, PREMIERE, NEW YORK
$244 Million

TELEVISION
SKY, FOX BROADCASTING
$6.3 Million

MOVIES AND TV SHOWS
20TH CENTURY-FOX
$82 Million

OTHER
$245 Million

Year ended June 30 DATA: FIRST BOSTON CORP.

The Infiniti Q45 hits 60 mph in 6.7 seconds.
At which point you discover that "Wow" is
an involuntary reaction of pure pleasure.

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And that sense of well-being is enhanced when you experience the Q45 in action. A driving experience supported by the 278 horsepower, 32-valve, V8 engine, speed-sensitive electronic power rack-and-pinion steering, and the 4-wheel independent multi-link suspension.

To find out more about or test drive the Infiniti Q45 performance luxury sedan, call 1-800-933-6500 for your nearest Infiniti dealer.

INFINITI

TAIWAN'S BILLIONS ARE HITTING THE ROAD

The world's fattest cash hoard is going abroad—leaving a hungry domestic economy behind

In the lobby of an opulent Taipei hotel, music from the piano bar is muffled by the splash of fountains and waterfalls. Armani-suited executives converse quietly in Mandarin. Through the hubbub, an eavesdropper can pick up the business elite's new buzzphrase: "going global."

With $66 billion in nongold foreign reserves—more than Japan's $63 billion—Taiwan has the biggest cash hoard of any country in the world. Now, the Taiwanese are on an overseas buying binge, spending $12 billion this year alone. But unlike executives at Sony Corp. or Toyota Motor Co., when the Taiwanese talk about going global, they don't mean conquering markets or buying out the competition. They mean getting their capital out of a domestic economy that seems to be going sour.

After years of manufacturing success that made Taiwan the world's 12th-largest exporter, the country is at a crossroads. This year, growth has slowed to 5% from more than 12% five years ago. Wages rose 15% last year, making neighboring Malaysia, Thailand, and Indonesia more competitive. In the month of June alone, the number of Taiwanese factories in operation declined by almost 2%—the first drop since 1979. Industrial output fell 0.1% in the first quarter, and exports for the first seven months of 1990 are flat. Plus, real inflation is running at three times the government's official rate of 5%.

FAST BUCKS. No wonder the Taiwanese are jumping ship. Taiwan's richest families made their millions in less than two generations—some in less than a decade. In the 1980s, a booming stock market and skyrocketing real estate values fed speculation. Foreign-exchange controls kept much of Taiwan's wealth sloshing around the domestic economy, and a strong local currency also encouraged investment at home.

But the floodgates were opened when Taipei loosened exchange controls beginning in 1986. By this year, the capital exodus was so huge that it aggravated a stock market collapse. Taiwan's overheated exchange has plummeted by 70% since its peak in February—the second-biggest drop of any exchange in the world. And there are no bargains left in the property market. So the Taiwanese are looking for easy profits elsewhere.

That capital flight means less money for domestic growth. Despite reassuring noises from the government in Taip there's no guarantee that profits overse will be reinvested at home anytime soo And dozens of companies are sticking low-tech, copycat manufacturing. Desp their export riches, Taiwanese compani on average spend only 0.5% of their sal on research and development—less th half the level in South Korea. Private d mestic investment will fall 5.5% this ye Without such investment, Taiwan's stat as the most successful of Asia's Four ' gers could be threatened. And it may nev follow in Japan's footsteps to become a m jor multinational force.

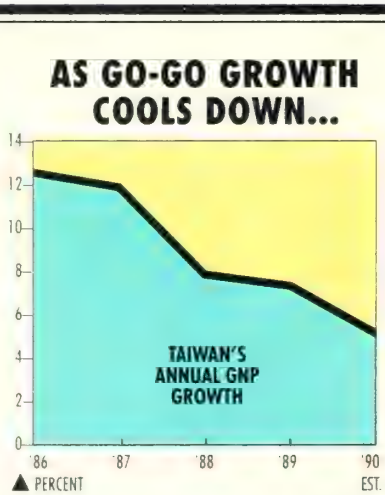
Officials in Taipei are aware of the pro lem. Central Bank of China Governor Sa uel Shieh says he will lend millions of t country's reserves for the "right" kind overseas move. "We'll back anything th gets us needed technology, marketin skills, raw materials, and environment equipment or helps our industries with ve tical integration," says the Minnesot trained agriculturist-turned-banker.

But few are listening to Shieh. A handf of companies, such as Acer Inc., have long-term international strategy to u grade production, build new markets, a enhance their technologies. But most a

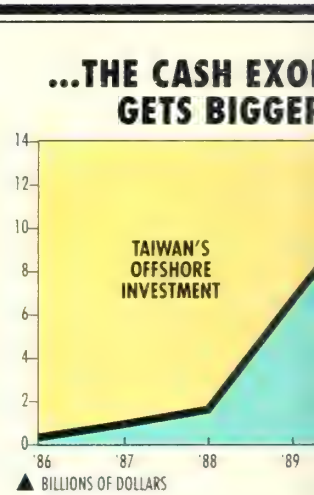
A BUYING BINGE IN AMERICA

So far, the Taiwanese have poured some $2 billion into U. S. investments. More deals are on the way

AS GO-GO GROWTH COOLS DOWN...



...THE CASH EXO GETS BIGGE



DATA: TAIWAN STATISTICS BUREAU, BW ESTIMATES

mping into foreign markets for instant ratification. To escape rising wage costs nd tightening environmental regulations, ore and more manufacturers are simply oving production elsewhere in Southeast sia to keep doing exactly what they have en doing back home. Meanwhile, many Taiwan's entrepreneurs are fishing in mpletely unknown waters, plowing mon- into unfamiliar businesses.

The banking system is ill-equipped to be much help. In Japan, the big banks line behind industrial giants, becoming de cto partners in their overseas invest- ents. In Taiwan, because such offshore vestments were prohibited for years, nks have little dealmaking expertise. pital used to sneak out via relatives and handshake. But increasingly, the huge lk of Taiwan's money demands more ofessional channels. When companies ed a loan, the business often goes to for- gners. Barclays Bank and the Bank of nerica gave Acer an $80 million bridging an to buy Altos Computer Systems.

Foreign middlemen are lining up to ad- se wealthy and ambitious Taiwanese almakers. Take Jack Sun, the president Pacific Electric & Cable. As its name ggests, the company has no history as a ancial institution. But, encouraged by S. accountant Peat Marwick itchell & Co., Sun ught eight ailing

Falling domestic investment threatens Taiwan's status as the most successful of Asia's Four Tigers

chain. That, too, will be a hands-off affair. "Hotels are easy to make money from," says Sun, who recently opened the Conrad Hotel in Hong Kong. His right-hand man, financial manager Hu Hung-chiu, admits that Pacific plans to "use the banks and hotels to get information about deals around the U. S. and expand from there."

NEW APPETITE. Dealmaking fever is also behind one-year-old First Taiwan Investment & Banking, whose merger-and-acquisition operations are run by Taiwanese Eric Lin and American Thomas Hooker Bliss Jr. Lin and Bliss both moved over from Shearson Lehman Hutton, where Lin worked on Taiwan-based Continental Engineering Corp.'s $100 million takeover of American Bridge Co.

Lin and Bliss have already advised Hong Kong-based Hanny Magnetics Ltd. on a merger with Dysan, the largest floppy-disk marketer in the U. S. In June, they acquired Singer Taiwan, a subsidiary of Singer USA. Lin and Bliss expect to profit from the new appetite for mergers and acquisitions, exploiting their strong local connections. But Taiwan's financial downturn could threaten their dealmaking windfalls.

So far, the Taiwanese have poured an estimated $2 billion into U. S. investments. And they're likely to keep looking for deals in food, textiles, leisure, electronics, transportation, cement, and construction. Early this year, President Enterprises Corp., Taiwan's biggest food conglomerate, shelled out $335 million for San Francisco-based Wyndham Foods Inc., which sells Girl Scout cookies as well as several other cookie brands. And the U. S. subsidiary of electronics giant Sampo, which distributes Chrysler Corp. autos in Taiwan, led the acquisition of St. Petersburg (Fla.)-based Payless Car Rental Systems Inc. Such small companies are thrilled to find a deep-pocketed buyer. But like the Texas savings-and-loans, they are unlikely to give their Taiwanese acquirers a major presence in the U. S. market against the powerful national names.

Even some Taiwan industrialists worry that their approach may be too haphazard. Says YFY Vice-President Huang Tsung-jen: "In Japan, MITI has done a better job because what MITI says, Japanese companies do. Here, nobody in the government will make decisions." Warns Philip Young, executive vice-president at International Investment & Trust Co.: "These companies may have trouble consolidating their overseas buys, and some will end up a waste of time and money."

Despite his misgivings, the Central Bank's Shieh views the outpouring of entrepreneurs and money as a normal transition of an exporting country to international status, "like America, Germany, or Japan before us." Those are glowing analogies. But if the island's millionaires don't start plowing more money into stoking the growth engines at home, Taiwan may not get its happy ending. Right now, in the rush off Taiwan's shores, nobody seems to be looking back.

By Dinah Lee and Dirk Bennett in Taipei, with Mark Timm in Bangkok and Sally Gelston in Jakarta

ACIFIC ELECTRIC & CABLE
OUGHT EIGHT TEXAS S&Ls

SAMPO PICKED UP
PAYLESS CAR RENTAL ▶

PRESIDENT ENTERPRISES PAID
$335 MILLION FOR WYNDHAM ▶

vings-and-loan associations in seven different Texas cities for $37.5 million, renaming them Pacific Southwest Savings Bank. n has no interest in running the thrifts. When I got back from Texas, I told my ends here I wouldn't be sending any of y own managers over there," says Sun. Of course, they thought I was crazy."

Peat Marwick is doing the managing for m, and Sun says the thrifts have started rning profits. But he sees the troubled nks mainly as a source of tax credits, hich he wants to apply to a U. S. hotel

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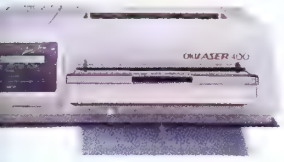

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THE NASD: A COMPUTERIZED MOUSE THAT'S ROARING

PRESIDENT HARDIMAN: USING TECHNOLOGY TO DEVELOP NEW MARKETS

ne and quit penny stocks, to settle arges of excessive markups on four curities. After years of watching the SD fumble, Colorado Securities Comssioner Philip Feigin is impressed.)ne cannot look at the Stuart-James ttlement without some degree of ve," he says.

The NASD is also trying to cure pinkeet problems by creating a separte NASDAQ market, which is own as the electronic bulletin ard. For regular NASDAQ stocks, curities dealers post bids to buy d offers to sell securities on comter screens. An issue may have ny dealers competing to attract ders from brokers. Displayed ices must be "firm"—that is, ey must be honored when a bror calls to make a trade. No such scipline exists in the pink sheets. ie bulletin board is a separate age" on the terminal, patterned ter NASDAQ but reserved for ises that are too small to list there. The bulletin board aims to disurage penny-stock manipulations fore they start by encouraging alers to stand behind the quotes ey advertise. Unlike regular SDAQ stocks, dealers on the bulin board aren't required to hold t firm quotes. But the majority e choosing to do so anyway, acrding to NASD Vice-President Wilm Broka, because of competitive essure—once one dealer on the reen makes its quotes firm, the ners follow. Since June, more an a third of the 11,000 compaes with stocks listed in the pink eets have switched to the elecnic format, leaving only the tinit companies behind.

WER PRICES. The effect has been amatic—and beneficial to the instor. Look at the stock of Adrian eel Co., a metal-fabricating comny in Adrian, Mich. In the pink eets last year, dealers offered to y Adrian at 140 but to sell to vestors at 170—a hefty 21% arkup. With the new bulletin ard, the buy price is 140 but the ll price is down to 141. Says Lawnce J. Goldstein, general partner Santa Monica Partners, a New ork market maker: "Light is beg shone into a market where ere was none before."

The NASD is also making headay in hanging on to the big-name ocks traded on NASDAQ. The OTC mart once was chiefly a farm system for wly public companies that would leap the Amex or the NYSE as soon as they ere big enough. Recently, though, succss has not necessarily led companies desert NASDAQ (table). Such companies as MCI, Sun Microsystems, and Intel have resisted the siren songs of the exchanges.

Sun said "no" to the NYSE after the 1987 crash. The NYSE maintained that the NASDAQ system of competing dealers provides less liquidity than the Big Board's auction market, where all orders flow to the specialist on the trading floor. But Sun Microsystems concluded that the Big Board might even afford less liquidity than Sun's 50 NASDAQ market makers. Eventually, says Austin Wing Mayer, a strategic planner at Sun, "fewer companies will identify the need to move to the NYSE."

Despite the NASD's recent gains, NASDAQ is still haunted by criticisms that its fragmented network of dealers doesn't fill the breach during volatile markets—such as during the current Persian Gulf crisis. Facing similar criticism after the 1987 crash, the NASD's Hardiman instituted a spate of reforms, such as hiking penalties for dealers guilty of deserting their terminals during a sell-off. But the NASDAQ index is down 19% since mid-July, vs. a 12% drop on the NYSE, and investors are again griping about plunging prices. So it remains unclear whether Hardiman can do much more to increase liquidity. "To my mind, the NYSE still works better than NASDAQ," insists the head trader of one mutual fund.

STIFF COMPETITION. NASDAQ also faces threats in the niche it is supposed to own: new trading technology. More institutional investors are bypassing NASDAQ and using such alternative systems as Instinet—an electronic order-matching network owned by Reuters Holdings PLC—as well as portfolio trading systems such as Posit and Crossing Network. On July 12, for instance, some 28% of the 2.25 million shares traded in Apple Computer Inc. were matched via Instinet.

And the reception thus far for NASD's new Portal system has been lukewarm. Since its launch in June, only 500,000 shares have changed hands, partly because of the slowdown in issuance of private placements—stocks and bonds sold without being subject to the scrutiny of U. S. disclosure rules for public companies. Portal also will face stiff competition next year from Situs, a rival system being developed by Reuters and the Amex. Some believe Reuters' global network of money managers could give Situs a strong edge over Portal.

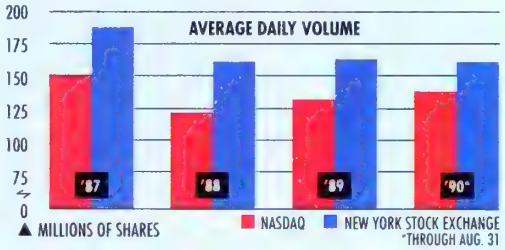
The NASD's highly promoted move toward round-the-clock trading faces a major hurdle, too, before it can get up and running. NASD officials are encountering resistance among British securities dealers to U. S. rules for rapid reporting of trades. However, Hardiman is confident that a compromise will be worked out.

When NASDAQ began, it was widely derided as a "black box" that would take the human element out of stock trading. Traders used to joke that NASDAQ is the market of the future—but not the present. Increasingly, though, it looks as if NASDAQ's future is now.

By Dean Foust in Washington and David Zigas in New York

HOW NASDAQ IS GAINING ON THE BIG BOARD

TRADING VOLUME IS GRADUALLY CATCHING UP...



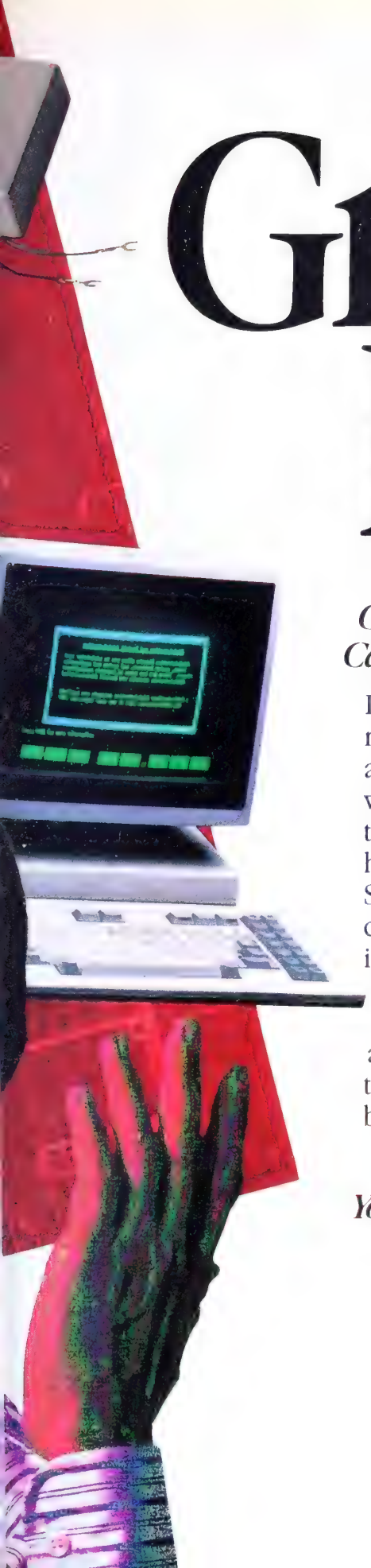
...SUCCESSFUL COMPANIES ARE STAYING WITH IT...

Company	Annual revenues Millions	Date listed on NASDAQ
MCI COMMUNICATIONS	$6,471	1/1/78
APPLE COMPUTER	5,284	12/12/80
INTEL	3,127	6/30/87
TELE COMMUNICATIONS	3,026	2/2/82
SUN MICROSYSTEMS	2,466	3/4/86
REUTERS HOLDINGS	1,911	6/4/84
LAIDLAW	1,413	10/17/83
LIZ CLAIBORNE	1,411	6/5/81
MICROSOFT	1,184	3/13/86
LOTUS DEVELOPMENT	556	10/6/83
LIN BROADCASTING	251	1/1/78

...AND NEW PRODUCTS ARE BEING LAUNCHED

Product/Description	Date
ELECTRONIC BULLETIN BOARD Listing of stocks by computer that used to be in the pink sheets	6/1/90
PORTAL Institutional investors can trade privately offered securities	6/15/90
LINKAGE WITH LONDON EXCHANGE Before-hours trading of NASDAQ and listed stocks	12/31/90
JUNK-BOND TRADING SYSTEM Computer network for buying and selling junk bonds	Under development

DATA: KNIGHT-RIDDER TRADECENTER, NASD, NYSE



Growing Pains

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INVESTMENT BANKING

THE QUICK GENERATION GAP: DAD'S CAUTION LED TO PROFITS—BUT MAY NOW HURT THE FIRM

LIKE FATHER, UNLIKE SON AT QUICK & REILLY

So far, the broker's CEO has vetoed his son's moves to diversify

On Wall Street, Quick & Reilly Inc. is different. As a successful family-owned business, notes Hugo Quackenbush, senior vice-president of Charles Schwab & Co., "it's the only firm where the brass can talk about the business at the family dinner table." But these days, conversations may be strained: Family differences are brewing at the second-largest discount broker.

There's nothing personal about it. The Quicks are one big, happy family. But the two top Quicks disagree over their firm's direction. Leslie C. Quick III, the broker's 37-year-old president, wants to add insurance, some mutual funds, and bond trading. "There are a lot of firms that offer more products than we do," he says. "We have to pay more attention to the needs of our customers. Maybe we haven't done enough of that in the past."

AMBITIOUS AGENDA. But his father won't budge. Leslie C. Quick Jr., 64, who founded the firm in 1974, has veto power as chairman and chief executive. And he doesn't want to shift from his basic business. "We don't see great opportunities in other people's backyards," he says.

Despite the up-and-down brokerage business, Quick & Reilly has boasted profit margins that usually outstrip other firms, including Schwab, the largest discounter. Last year Q&R earned $11.4 million, or $1.21 per share, up from $9.9 million, or $1.05, in 1988. And the firm expects profits this quarter of about $3 million, or 35¢ a share.

But the elder Quick's cautious management style may have a downside, too. His reluctance to invest more of the firm's hefty equity capital—$89 million—in new businesses, could hurt Q&R, say some analysts. "If the firm doesn't use its capital more wisely," says Perrin Long of Lipper Analytical Securities Corp., "its return on equity will decrease. The firm needs to expand in new markets to add to its revenues. Diversification could also help its stock." It debuted on the New York Stock Exchange in 1983 at 18. Like many brokerage stocks, its shares have slipped, fading from 16½ in June to 11½.

Quick III, the son, has an ambitious agenda. It irks him that archrival Schwab has been more aggressive in launching new products. Schwab's revenues of $553 million this past year were five times as large as Q&R's. The younger Quick would like to buy a life-insurance company, whose products could be sold to Q&R's 450,000 customers. Expansion in the exploding mutual-fund industry is also a big goal. "We probably should have been in no-load mutual funds two years ago," he admits. He also favors purchasing a bond-trading house, noting "we could probably acquire one for a low price."

NEW BLOOD. But his father thinks those takeovers are too risky. Insurance "doesn't lend itself to a discount broker," he says, adding that "most of the people in government securities have been losing their shirts." Laments the son: "He'll just dismiss [any idea] out of hand. That's where we disagree."

Father and son have bumped heads over acquisitions before. In 1986, Q&R discussed buying Lind-Waldock & Co., a discount commodities firm. It seemed to be a natural fit. "The younger Quick was in favor of it, but the old man nixed the deal," says a discount industry executive. "Quick & Reilly offered a number that was ridiculously low." Says the elder Quick: "It's a business where investors don't make money, historically, and it's a bad business for our customers."

But new businesses would bring new blood—which might be a boon. The elder Quick's other sons also help run the firm. It has 65 branches and clears trades for 81 brokers and banks through a separate unit, which brings in about half the firm's revenues (chart). Q&R also acts as the "specialist" in 76 New York Stock Exchange issues, buying and selling shares on the Big Board floor and maintaining an orderly market.

In August, Quick & Reilly benefited from the burst of trading volume that followed the Kuwaiti invasion. It often handled 12,000 buy and sell orders a day during the month, double its 1990 average. But young Quick III conceded, "We'll pay later on." Indeed, Big Board volume sank to a scant 92.9 million shares on Sept. 4, vs. 200 million in early August. Quick III thinks that the firm could cushion such a blow by diversifying. But, first, he must persuade his pa

By Jon Friedman in New Yo

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Commentary/by Christopher Farrell

OIL AND INFLATION: WHY HISTORY WON'T REPEAT ITSELF

Oil prices are up. The dollar is faltering. Does this mean inflation is heading inexorably higher in the wake of Iraq's oil war? Yes, says the bond market. Investors have driven interest rates higher and bond prices lower, remembering all too well the savaging bonds took after inflation spiraled higher following the oil price shocks of the 1970s. And many economists are forecasting at least a couple of months of double-digit increases in consumer prices.

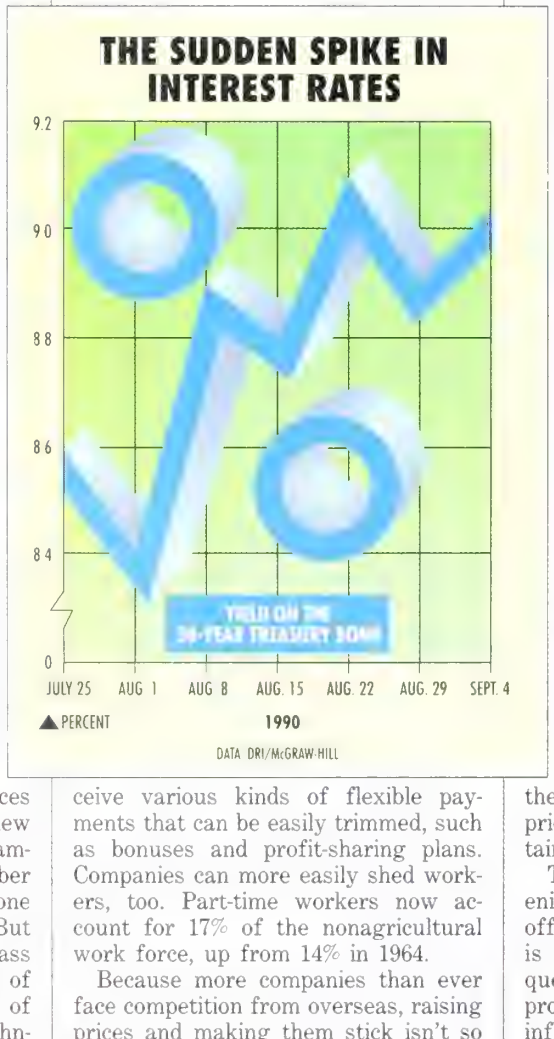
But any pain that higher oil prices inflict on the price index is likely to be fleeting and quickly reversed. By mid-1991, inflation could be lower than the 5% annual rate that prevailed when Hussein's army marched into Kuwait. The fact is, the economy of the 1990s is very different from that of the 1970s.

BETTER MILEAGE. For one thing, the U. S. is far more energy-efficient. More important, a heated competitive environment means that labor can't win big wage increases and companies can't get away with big price increases. Stagnant home values and heavy debts mean consumers won't borrow heavily and spend feverishly. Finally, global financial markets have already driven interest rates higher, and that will slow demand and head off price pressures.

The economy is clearly less vulnerable to higher energy prices than before. American industry currently consumes 24.5 Btus per dollar of real output. That compares with 29 Btus per dollar during the early 1980s and 36 in the early 1970s. Not only have companies worked hard to cut back energy use, but technological advances have enabled them to produce new products with less energy. For example, about 100 pounds of glass fiber cable can carry as many telephone messages as 1 ton of copper wire. But to manufacture 100 pounds of glass fiber cable takes no more than 5% of the energy needed to make 1 ton of copper wire, according to Hugh Johnson, economist at First Albany Corp.

The changes in energy use are equally dramatic on the consumer front. The average automobile today gets 28 miles per gallon, compared with a mere 14 mpg when the first oil shock hit back in 1973.

The competitive markets in which U. S. workers and managers now operate will also dampen price pressures. Companies sliced, diced, and overhauled their operations throughout the last decade. The most visible effects show up among U. S. workers. For instance, labor unions today represent only 12% of the private sector work force, down from about 22% in 1980. Automatic cost-of-living pay hikes are increasingly rare in the private sector now. Instead, many workers now receive various kinds of flexible payments that can be easily trimmed, such as bonuses and profit-sharing plans. Companies can more easily shed workers, too. Part-time workers now account for 17% of the nonagricultural work force, up from 14% in 1964.



Because more companies than ever face competition from overseas, raising prices and making them stick isn't so easy. And in this spongy business climate, boosting prices can be especially difficult. The retail sales wars are already heating up in anticipation of a poor Christmas season. And published list prices are frequently a misleading gauge of actual sales prices. For instance, General Motors Corp., raised its base car prices by an average of 4% on Aug. 14, only to boost the size of its auto sales rebates shortly thereafter.

The effect of these labor market changes and global competition on the inflation rate can be powerful. Donald Ratajczak, head of the Georgia State University Economic Forecasting Center, expects these twin forces to slice the inflation rate from 7.5% over the next few months to 4% by mid-1991.

Consumers, too, are likely to be restrained, avoiding the kind of anticipatory buying that fanned inflation in the 1970s. The public is feeling squeezed with interest payments that absorb 27% of disposable income, and that doesn't include mortgage payments. Mortgage debt has nearly tripled in the 1980s, to $2.4 trillion. Worse yet, home prices are no longer soaring as they did in the 1970s and much of the 1980s, so homeowners aren't likely to feel quite so wealthy or spend quite so freely. Existing single-family home prices have risen a mere 3.4% year-over-year. In many parts of the country, most notably New England, home prices are down sharply. The current housing environment is nearly the opposite of the 1970s, when the unprecedented boom in housing prices stoked inflation psychology.

WILD CARD. Rising interest rates around the world are still another important factor keeping the lid on inflation. Financial markets reacted quickly when oil prices rose, driving interest rates higher. Coming on the heels of slow growth in the money supply and tame commodity prices, this hardly makes for a sustained inflationary surge.

To be sure, prices could climb frighteningly high if the Middle East standoff spins into war. But as long as war is averted, the inflationary consequences of higher oil prices should prove surprisingly short-lived. The disinflationary trend that began in the 1980s could even accelerate as expensive oil soaks up the purchasing power of businesses and consumers. If anything, interest rates next year should be lower than they are now.

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IBM

BANKING

MAYBE THIS BANK SHOULD HAVE CRIED WOLF

PNC's stock has sunk, some say because it glossed over bad news

Once held up as the model of the perfect regional bank, PNC Financial Corp. has seen its stock hammered. Sure, as in other banks, earnings are down and nonperforming loans are up. But the Pittsburgh bank holding company has paid a far stiffer price than most others. The company lacks credibility on Wall Street: Analysts are mistrustful, saying PNC management has glossed over bad news.

The stock price's decline has been breathtaking (chart). PNC's price dropped to 23⅝ as of Sept. 5, down 51% from a year ago. Compare that with the Standard & Poor's Corp. composite for regional banks, which has lost 30% in the same period.

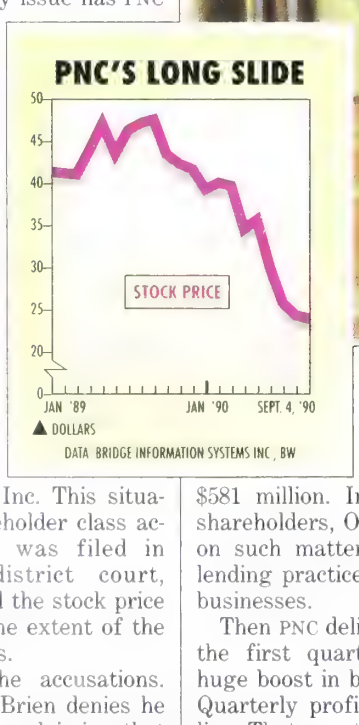
PNC was a spectacularly successful regional in the 1980s, nearly quadrupling assets, to $47.8 billion, and becoming the nation's 14th-largest bank. Then, PNC's sterling profits deteriorated, primarily because of sour commercial real estate loans. For the first half of 1990, earnings dropped 26%, to $183 million.

BEST FACE. The credibility issue has PNC marked for extra punishment. Thaddeus Paluszek, an analyst at Kidder, Peabody & Co., believes PNC has hurt itself by sugarcoating negative tidings. The stock has been slammed when lowball forecasts of nonperforming loans and best-face estimates of future earnings turned out to be overly optimistic. "They don't know how to handle bad news," says Michael A. Plodwick, an analyst at C. J. Lawrence, Morgan Grenfell Inc. This situation has sparked a shareholder class action. The suit, which was filed in Pittsburgh federal district court, charges that PNC inflated the stock price by not fully disclosing the extent of the loan portfolio's weakness.

PNC hotly contests the accusations. Chairman Thomas H. O'Brien denies he has soft-pedaled problems, claiming that the unhappy results couldn't be foreseen. "We've made every effort to be forthright," he says.

The problems began in June, 1989, when PNC Vice-Chairman James E. Rohr told analysts at a meeting in Cleveland to expect a modest uptick in nonperforming loans of up to 20%. Five days later, Wall Street rumors of huge impending PNC losses forced the company to issue a statement that nonperformers wouldn't affect earnings for the year.

O'BRIEN: AN APPETITE FOR ACQUISITIONS



But in fact, earnings for 1989 ended up declining by 18%, to $377.4 million. And bad loans increased by 26%, to $581 million. In his letter to company shareholders, O'Brien preferred to focus on such matters as PNC's conservative lending practices and strong, diversified businesses.

Then PNC delivered another shocker in the first quarter of 1990, showing a huge boost in bad loans, to $673 million. Quarterly profits sank 40%, to $74 million. That was too much for Wall Street. In an April report, Kidder's Paluszek concluded: "PNC is a company that h lost its luster as a banking-indust quality leader." He joined the legion sell recommendations. Analysts expe at least $100 million more in nonperfor ers by yearend after federal audits of i two flagships, Pittsburgh National a Philadelphia's Provident.

OPPORTUNITY KNOCKS. PNC's appetite f acquisitions has strained credibility another way. O'Brien has said repeate ly that he's interested in buying prima ly superior-quality banks of up to $6 b lion in size in PNC's market area, whi encompasses Pennsylvania, Ohio, Del ware, and Kentucky. But O'Brien qui ly made a $2 billion tentative offer January for troubled First Fidelity Ba corp., a Newark (N. J.) banking compa with $30 billion in assets—a move th would have loaded still more burdens PNC. Aimed at creating the nation's se enth-largest bank holding company, t deal fell through when t New Jersey company dec ed to stay independent.

To PNC, the possibility gaining First Fidelity ma the risk worthwhile. O'B en explains it was an tempt to boost PNC's ret share in the Philadelph area, where First Fidelit the leading bank in Ne Jersey, has a strong pre ence. Denying that PN strategy has change O'Brien describes his int est in First Fidelity as ste ming from "a unique set circumstances."

Lately, PNC has tak steps to improve financ disclosure. The compa now publishes reams of a ditional new informati about its loan portfoli O'Brien made a point of gi ing a public forecast pri to releasing second-quart earnings. On the busine side, it says it is monitori investments and credits more close The company has hired a brace of we regarded executives from outside. P also is trying to boost its retail busine which generates more dependable ea ings than commercial real estate.

Will it be successful? In the lo term, says James M. McCormick, pre dent of FMCG Capital Strategies, a Ne York consulting firm, the bank is lik to wind up as one of a few nation banking powerhouses. Meanwhile, P has a lot to do to convince its shareho ers that no more distressing surpri lurk along the way.

By Michael Schroeder in Pittsbu

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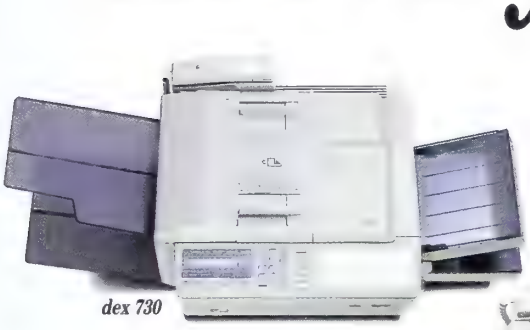

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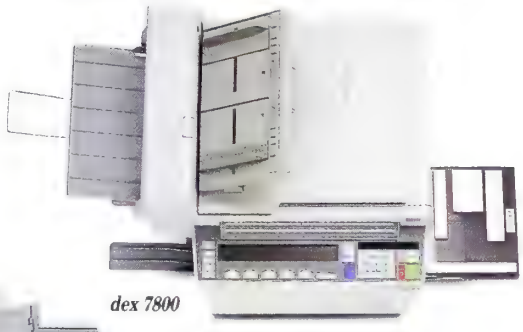

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BY GENE G. MARCIAL

THE SMART MONEY IS ZOOMING IN ON KODAK

Once a highly popular glamour stock, Eastman Kodak is anything but these days. The world's largest maker of photographic products has been a big disappointment to investors, trading most of this year near its five-year low of 36. But that may soon change. Some of the smart-money crowd have been accumulating shares, which are now at 41.

Part of the stock's recent move came on Kodak's sharply higher-than-expected second-quarter earnings of $1.18 a share, vs. 24¢ a year ago. The big jump called attention to the first fruits of the company's cost-cutting and restructuring efforts of the past three years. Analysts say a brighter earnings picture appears in sight, aided in part by the sharp drop in the dollar. Since overseas sales this year should account for 47% of total sales, up from 41% last year, a lower dollar is sure to boost earnings. "I expect more earnings surprises on the upside," says Eugene Glazer, an analyst at Dean Witter Reynolds who now sees earnings of $4.15 in 1990 and $4.75 in 1991, vs. 1989's $1.63.

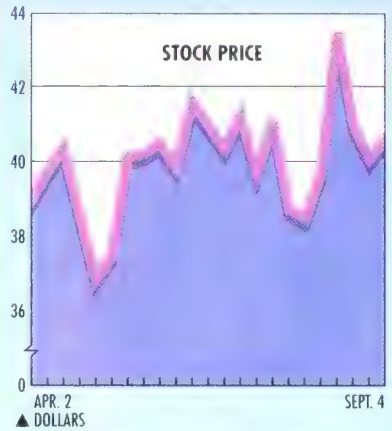
But there's another reason for the recent heavy buying, say several investors. Whispers are that Kodak is now poised to merge its Sterling Drug unit, acquired for $5.1 billion in early 1988, with a major European drugmaker. They say the deal, expected to be patterned after the strategic alliance between Du Pont and Merck, will provide the needed funds for Sterling to come up with new drugs.

PATENT PENALTY. And that's not all. These investors expect the one big worry depressing Kodak—the yet-undetermined penalty it will have to pay Polaroid in the patent-infringement case it lost—to be resolved soon. They're betting that the U. S. District Court in Boston will set the amount Kodak has to pay by November at the latest, and that it won't exceed $1.5 billion. Kodak President Kay Whitmore has said that if the award is from $1 billion to $2 billion, Kodak won't have to sell assets. One big investor believes Kodak will do the Sterling merger in anticipation of the court's award.

"If you're a value player, you'll buy Kodak shares now," says Jim Miller, who runs Bartlett Basic Value Fund. This is the time to scoop up Kodak shares, he says—before the court makes its award and while the stock is depressed. Miller has accumulated $19 million worth of the shares so far. He believes that once the court makes its decision, the stock will soar—unless the penalty is outrageously high.

Miller adds that, based on earnings and cash-flow projections alone, Kodak is undervalued. He believes that Kodak, now trading at less than 10 times estimated 1990 earnings, deserves a price-earnings ratio of at least 12, which would put the stock at 50. If it traded at the market's p-e of 15, he notes, Kodak would cost $60 a share. Kodak declined to comment.

EASTMAN KODAK: TRYING TO PUSH HIGHER



DATA: BRIDGE INFORMATION SYSTEMS INC.

THIS FLOW COULD GET CARRIED AWAY

Judging from the sorry performance of its shares, Flow International doesn't look much like a company that is being shopped around. Even after the April announcement that it was hiring an investment bank to find a buyer, the stock continued to sputter, falling to 2⅜ from 4 in March.

But it may not be time to give up on this leading maker of high-pressure waterjets used for industrial cutting and drilling. Some pros who have been buying say they expect a European company to acquire Flow at $4 to $5 a share within two to three months.

Chairman and CEO Michael Pao will say only that Wertheim Schroder has started to talk with potential acquirers in the U. S., Japan, and Europe. One of those said to be talking with Flow is Japan's Okura, which acquired a 10.3% stake through a private placement in January. (An American investor group owns about 5% of the 10.7 million shares outstanding.) But a European is likely to emerge as the buyer, says one big investor, since that's what Pao seems inclined to want. Pao, who holds a 7% stake, emphasizes that he expects a deal at a "substantial premium" to the stock's current price.

Earnings at Flow have been disappointing, falling to 23¢ a share in the year ended Apr. 30 from 68¢ in the previous fiscal year because of high operating costs and interest expenses. But Pao says fiscal 1991's results will exceed those of the past year.

A TEXTBOOK TAKEOVER PLAY?

Nothing came of last year's takeover rumors about textbook publisher John Wiley & Sons. But some buyout pros have recently started accumulating Wiley shares, which have tumbled to a new low of 3 from a 52-week high of 68.

The pros are betting on a friendly deal. The Wiley family, headed by Chairman W. B. Wiley, 79, owns 20% of the company's Class A stock. The family also exercises control through its 54% ownership of the 943,000 supervoting Class B shares. W. B. Wiley owns some 13% of the B shares, and 28% are owned by a trust that counts Wiley among its four trustees.

Based on what textbook publishers have gone for in recent years, Wiley is worth $65 to $70 a share, says Charles Leeds Jr., an analyst at Balis & Zorn. He believes the company is a "very attractive property" for which "there are a number of potential acquirers."

One factor supporting the takeover story is the 19.4% Class A and 5.2% Class B stakes owned by Theodore Cross, an investor whose previous 13D filings in Frost & Sullivan and Harper & Row Publishers were eventually followed by friendly takeovers. If Cross raises his stake, part of which is said to have been acquired for as high as $68 a share, Chairman Wiley might sell out, says a money manager who has a 7% stake. This pro says Wiley could be under tremendous pressure to sell if the company continues to show poor earnings and a depressed share price. A Wiley spokesman says Cross hasn't approached Wiley "even just to talk, so we regard his 13D filings for investment purposes only."

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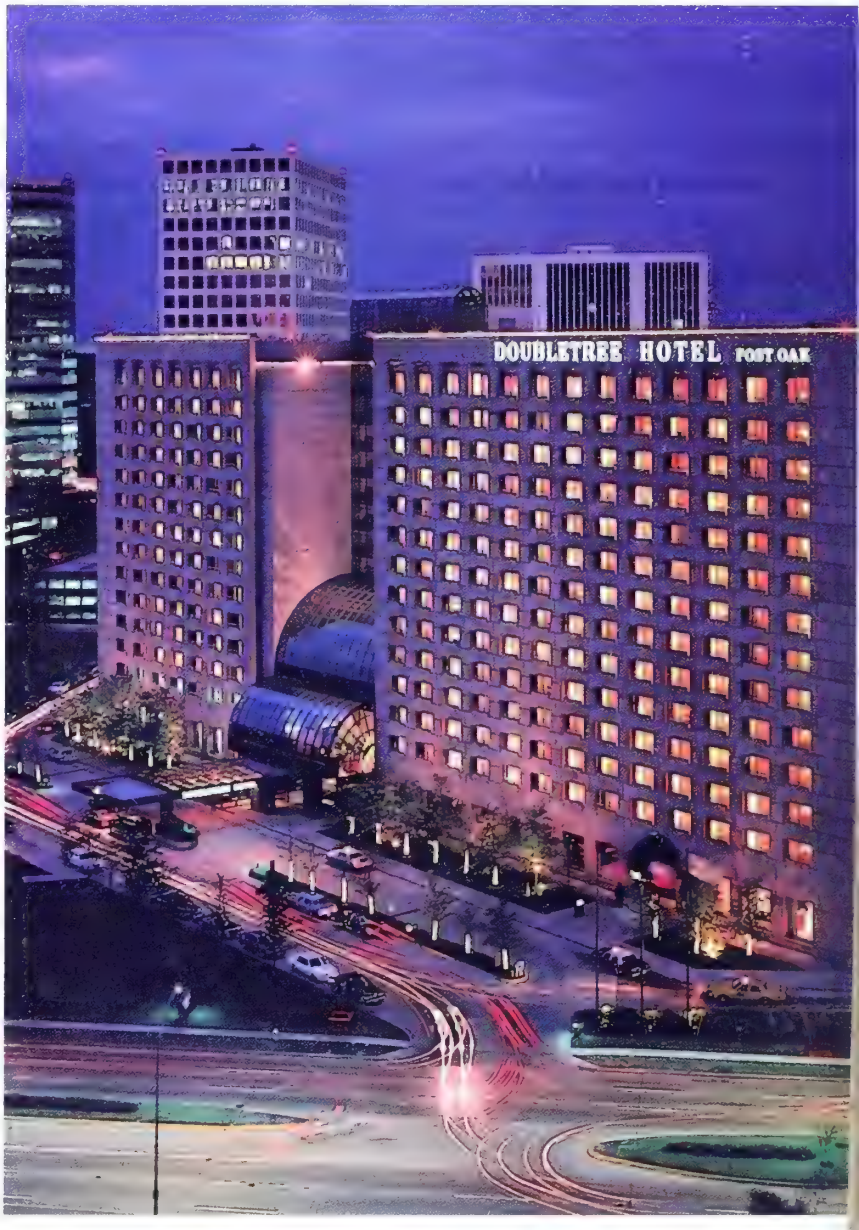

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TELECOMMUNICATIONS

900 NUMBERS ARE BEING BORN AGAIN

Legitimate business wants to elbow aside the frivolous and sleazy

Move over, 976-BABE. Make way for 900-INFOLAW—the number of Tele-Lawyer Inc. In high-tech offices in Huntington Beach, Calif., Tele-Lawyer's eight attorneys sit wearing operator-style headsets and dispense advice on divorce, bankruptcy, and other legal matters to consumers and businesspeople who phone in. The $3-a-minute charge is added to customers' regular phone bills, making collection a breeze. Business is booming—and not just from callers who can't afford conventional legal help. Tele-Lawyer President Michael A. Cane claims that one high-ranking executive phones in several times a week, because it's easier than using his company's legal department.

Sex, entertainment, sports, and gab lines still dominate the 900 numbers. But businesses ranging from software publishers to credit-reporting agencies to colleges are suddenly waking up to the potential of pay-per-call phone service. Converting in some cases from toll-free 800 lines, they're using 900 numbers to sell information, customer support services, and occasionally product samples or coupons. Local phone companies handle the billing, and the list of callers provides the marketer with a good target for follow-up sales. American Telephone & Telegraph Co. says that 40% of the lines on its MultiQuest 900 service are now business-to-consumer or business-to-business, up from 7% as recently as January. "This is going to revolutionize business: how services are delivered and how products are bought and sold," says Cane.

It may, however, be a gradual revolution. Businesses are coming up with new ways to use 900 lines every week, and phone companies are eager to help them. But pay-per-call's sleazy image has inspired efforts by regulators and phone companies to protect the public from rip-off artists and pornography. In the process, legitimate operators of 900 numbers are being hobbled. For example, limits on the price per minute of a call—intended to keep consumers from racking up enormous bills—discourage companies from offering expensive information services over the phone. And businesses that block calls to 900 numbers and 976 exchanges to keep employees from calling to check on their lottery tickets can't get business services such as dial-up credit reports either. As many as 60% of large companies block their employees' access to 900 numbers, estimates one information provider.

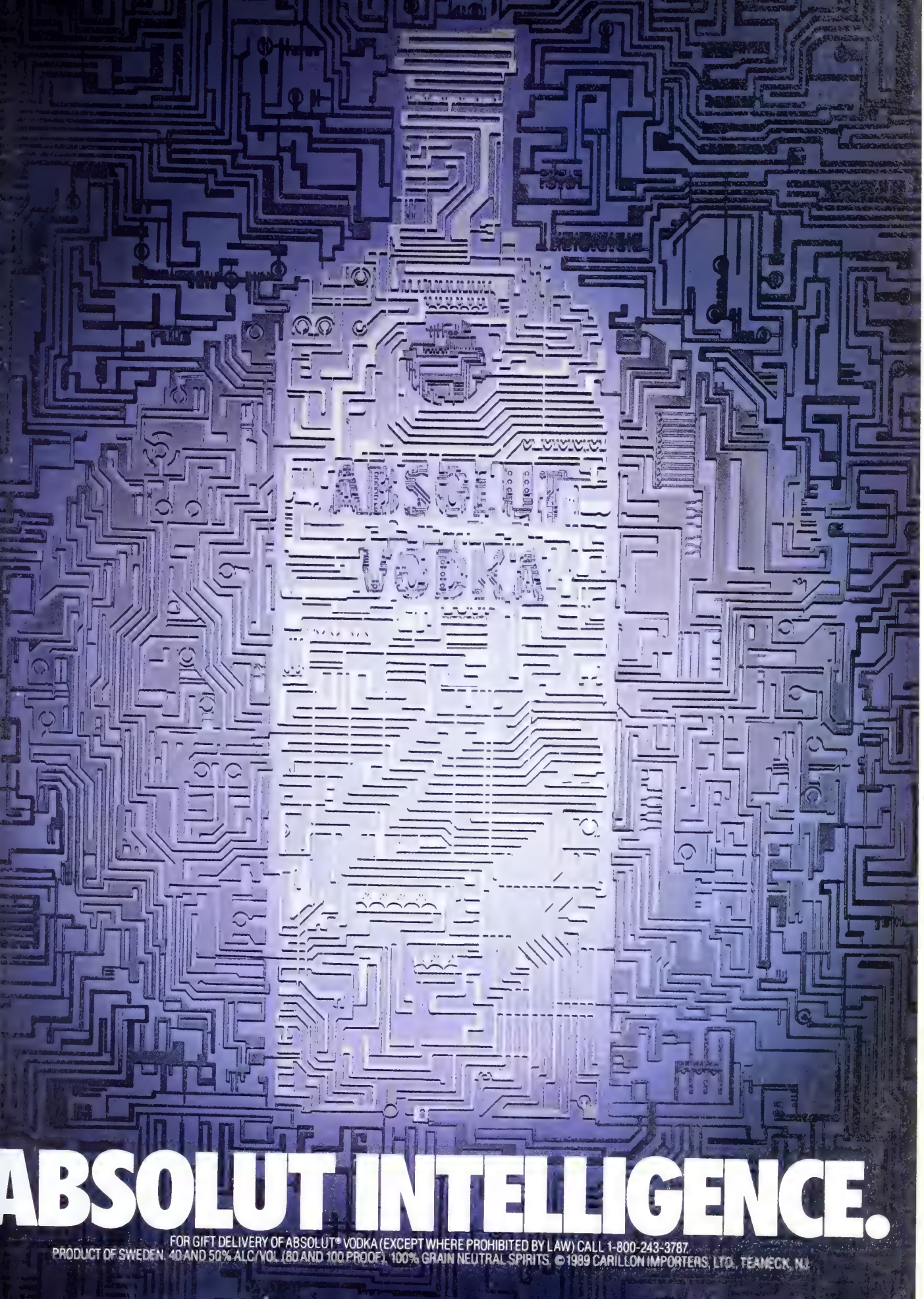
That gives pause to businesses that want to market their wares via pay-per-call. "When I hear there's another Senate hearing, I think: 'Gosh, I hope they don't make things tougher than it already is for the good guys,'" says Dick Schwartz, president of Crossroads Communications in Huntington Valley, Pa. Schwartz plans to launch a 900 line for high school students on Oct. 1 that will feature recruitment spiels by more than 300 colleges, and he's hoping services such as his will eventually overshadow the phony, the frivolous, and the off-color. "The next five years," he predicts, "will make or break this business."

PRATT & WHITNEY CO. ENGINEERS USE 900 LINES TO HANDLE TECHNICAL QUERIES

TAKING OFF. It's a young business whose direction nobody predicted. AT&T first offered 900 service in 1980, but it could only count how many times a 900 number was called. Two such lines were used to determine a winner in the Carter-Reagan TV debates. The business started to take off in 1987, when Telesphere Communications Inc., a tiny Chicago long-distance carrier, launched a national 900 service that for the first time permitted interaction by callers, either with a live operator or with a computerized voice-playback system. AT&T, U.S. Sprint Communications, and MCI Communications introduced interactive 900 services last year.

Early business users of interactive 900 lines included such consumer-product companies as Procter & Gamble Co. and Anheuser-Busch Cos. These marketers found people willing to pay from 25¢ to $2 for a 900 call, either to enter a sweepstakes or to collect discount coupons by return mail, or both. The payoff for the marketer was a data base of serious prospects—not casual callers who would dial an 800 line but wouldn't pay for a call. Publishers soon entered the fray. *The Wall Street Journal* offers stock quotes for 75¢ a minute, *Sports Illustrated* sells scores and injury reports for 79¢ a minute, *The New York Times* will give out crossword hints for 50¢ a minute, and *Consumer Reports* will tell you the value of a specific year and model used car for $1.50 a minute. First-minute charges for these services are usually a bit higher.

In the past year, 900 has also emerged as a tool for businesses to sell information and services to one another. In June, MTC Information Systems Corp. Novato, Calif., started selling TRW Business Credit Reports on companies for $28 each under contract to TRW Inc. billed as a 900 call. The reports are se



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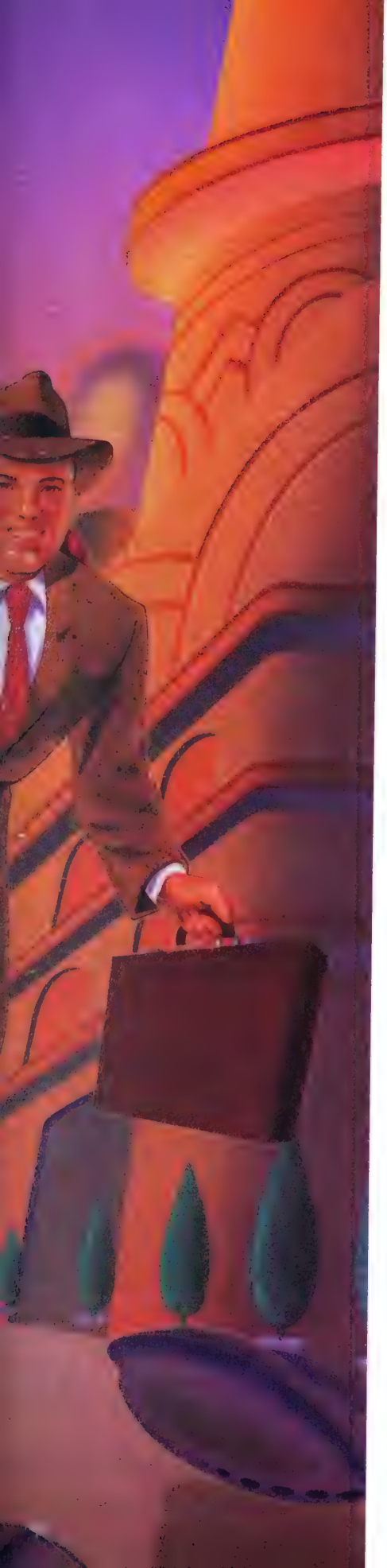
THE FUTURE: CAN WE REALLY GET THERE FROM HERE?



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a good idea today, just
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by mail, facsimile, or overnight express. New York insurance agents can get computerized voice reports on the state motor-vehicle records of applicants, and Lotus 1-2-3 spreadsheet users can have a software technician solve problems by phone for $2 a minute.

Businesses find it an efficient system. With the meter running, callers to 900 numbers tend to get right to the point. "There's no talk of the weather or baseball scores," says Edward P. Tenney, general manager for service at machine-tool builder Pratt & Whitney Co. in West Hartford, Conn., which has engineers on the line to help customers with technical queries.

'SOLE MISSION.' A recent twist is the combination of 900 calling and facsimile machines, as in MTC's faxed credit reports. Using faxes, information providers can distribute complex data that could not reasonably be transmitted verbally. Callers to Traf/Fax Inc. in Marina del Rey, Calif., can get maps of Los Angeles traffic jams every 10 minutes.

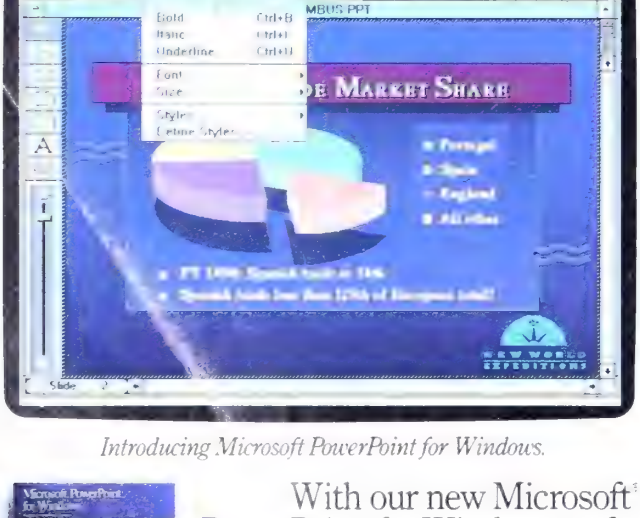
Phone companies are working overtime to help businesses figure out how to use 900 numbers in marketing and service. "My organization's sole mission is to get this in the hands of business," says Andrea C. West, national marketing manager for AT&T's MultiQuest. No wonder. On every 900 call it handles, AT&T charges 30¢ for the first minute and 25¢ for each additional minute. If it also acts as an agent to straighten out billing and collection problems, it tacks an additional 10% onto the retail price of the call.

Before phone companies really cash in on business-oriented 900 service, however, they may have to clean up pay-per-call's seamy side. While their reputation is not as soiled as those of local 976 lines, long-distance 900 numbers are a potential bonanza for pornographers and con artists. One 900 line promised "guaranteed immediate issue" credit cards for a $49.95 call. Those who dialed in didn't get a credit card, but were told to send an additional $30 processing fee to get an "IHS card" allowing them to shop only from the International Home Shopper catalog.

Regulators and phone companies are trying to curb such abuses. But so far nobody has come up with a way to weed out just the "undesirable" services. Rather than attempting to censor offenders—and risk First Amendment problems—some jurisdictions impose harsh restrictions on all pay-per-call services. In an effort to protect consumers in its service area, for example, U.S. West Inc. won't bill for 900 lines that collect money for charities, conduct live chat lines, or arrange for delivery of information via fax. The company is considered the toughest of the seven regional Bells.

Similarly, California's Public Utilities Commission, fearing that state residents could be victimized by overcharges, ruled that services offering intrastate 900 numbers could charge no more than $1 a minute after the first minute. That helped parents of teen-agers avoid ge

It's time you took present



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ing thousand-dollar hone bills from 900 gab nes. But the regulation ackfired. Some of the iggest victims of the olicy have been legiti- nate information ser- ices that can't break ven at such a low rate. ince state commissions ave no authority over in- erstate calls, Tele-Law- er got around the ban y routing 900 calls nrough a service in eno, Nev. The dollar-a- inute ceiling "doesn't eep out adult [porn nes]. It doesn't keep out ab. It keeps out busi- ess," complains Tele- awyer's Cane.

IGH STAKES. With con- using and conflicting egulations across the country, business- s are finding it difficult to put together ational 900-number marketing plans. quipment makers are losing out, too: We've had a little bit of trouble selling additional service bureaus because ev- rybody's studying the regulatory envi- onment," says Brian A. Schoenthaler, irector of public and investor relations for Brite Voice Systems Inc. in Wichita, which sells voice-response equipment, often to service bureaus that handle 900-number lines for other companies.

With so much money at stake, no one wants to let regulation strangle 900 lines. For now, phone companies are evolving their rules as they go. AT&T, for example, doesn't allow companies to use the 900 billing mechanism for merchandise. So when ABC Television Network wanted to sell its *Episodes* magazine, which reports on soap-opera celebrities, it declared that the bimonthly subscription was free—but set the price of the call at $3, to cover postage and handling. Operators told callers a little about the magazine to comply with an AT&T rule that information must be transmitted during a 900 call. "AT&T in fact deemed that we were offering information on daytime dramas," says Publisher Amy Dorn Kopelan.

The effort was worth it: *Episodes* racked up an incredible 2 million subscribers in its first nine months. Presumably, those glossy giveaways will make 2 million soap opera buffs more loyal to ABC's offerings. Results like that are why 900 lines are getting a ringing endorsement from business.

By Larry Armstrong in Los Angeles and Peter Coy in New York

JUST A PHONE CALL AWAY

A sampling of 900-number business services

Name/Number	Content	Cost
SHOPPING SYSTEM 1-900-246-LIFE	Quotes on life insurance products	*95¢ a minute*
1-900-258-2886	Gives regional resale price for any '82 to '89 vehicle	*$1.50 a minute*
1-900-420-1212	Three-minute recruitment recordings from more than 300 colleges	*$2.50*
1-900-860-9210	Business addresses by Zip code	*$2 first minute; $1 each additional minute*
1-900-234-4TRW	TRW credit reports on more than 10 million businesses	*$28 per report*
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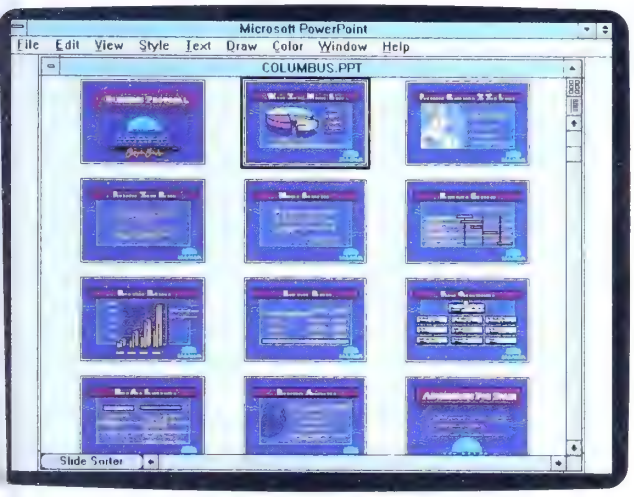

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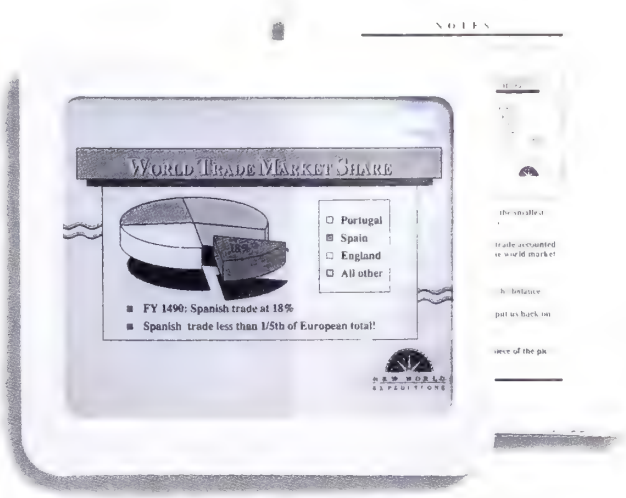

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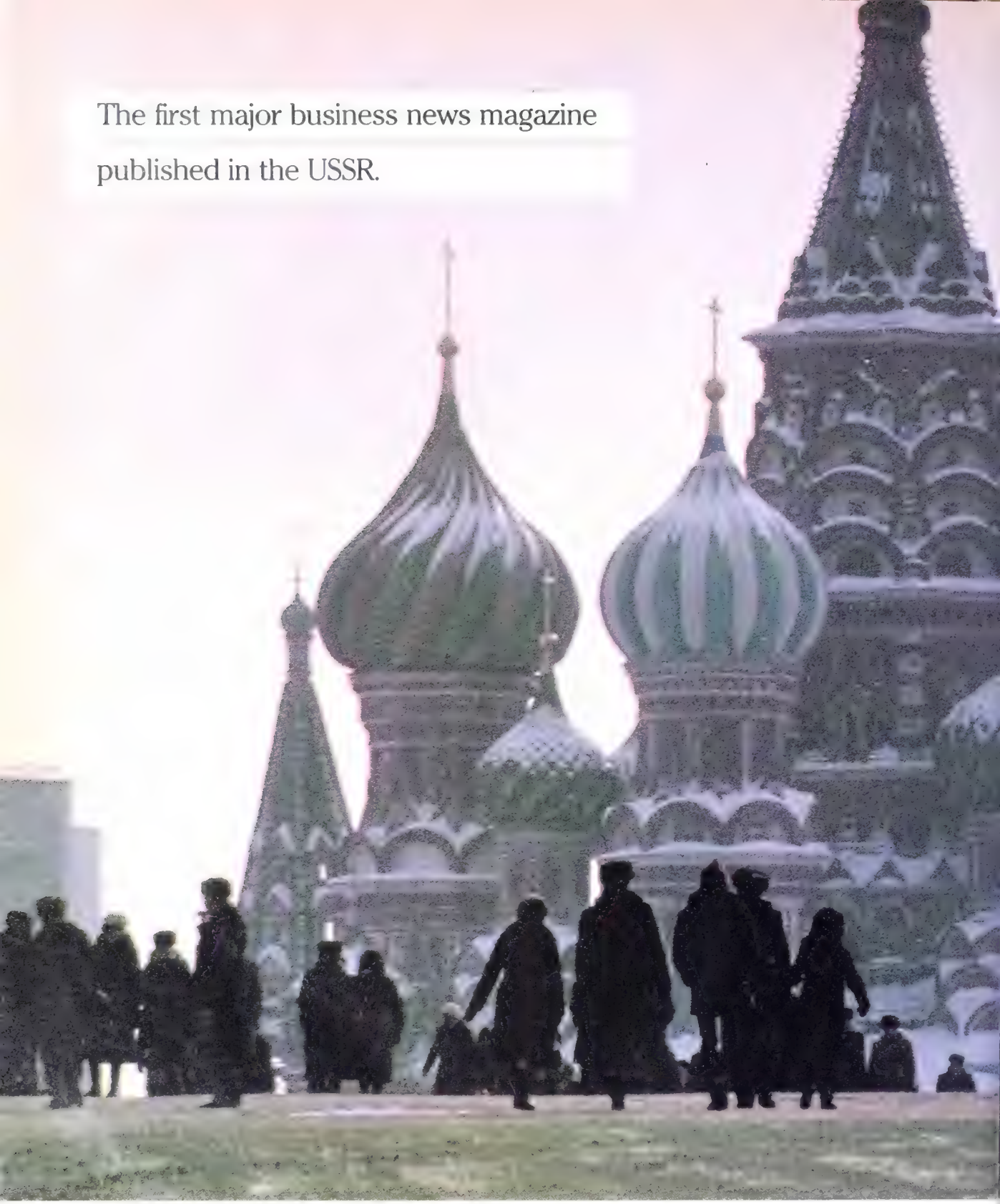

"Business Week/USSR," from McGraw-Hill. The most widely read business magazine in the Western world can now be read in Red Square — in Russian. It's yet another historic first for the USSR. And McGraw-Hill.

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IT'S GETTING EASIER TO BE YOUR OWN LEGAL EAGLE

Just because you don't like getting big bills from lawyers doesn't mean you can't have a modicum of legal counsel. Thanks to a booming self-help industry, more laymen are writing their own wills, incorporating their own companies, and getting helpful advice on handling contract, domestic, and consumer matters.

Taking the law into your own hands has one big advantage: price. Lawyers in private practice charge $100 an hour and up, while self-help products cost from $4.95 for a how-to paperback to $99.95 for computer software and a manual (table). Also, doing it yourself can save time and keep things simple—in contrast with the tendencies of many lawyers.

State bar associations offer free legal forms and guidelines that cover no-fault divorces, living wills, small-claims court, and other routine matters. Another important source of information is HALT, or Help Abolish Legal Tyranny, in Washington, D. C. (202 347-9600). The nonprofit advocacy group, which charges members $15 a year, aims to break the "legal monopoly" by making law more accessible to consumers through books, pamphlets, and lobbying.

Even that bastion of the legal profession, the American Bar Assn., supports the self-help movement. "We're generally perceived as very hostile to it, but that's not the case," says ABA spokesperson Nancy Slonim. Indeed, in July, the ABA and Publications International in Lincolnwood, Ill., came out with a comprehensive, easy-to-read consumer guide titled *You and the Law*. The 608-page manual sells for $19.98 (312 988-5000).

These products aren't panaceas, of course. "Nobody says they will solve all the problems all the time," says Ralph Warner, president of Nolo Press, a leading self-help publisher based in Berkeley, Calif. Warner advises do-it-yourselfers to avoid handling problems that involve a lot of money or have many complications. At the least, he says, you should have a lawyer review your work.

EASILY OUTDATED. Do-it-yourselfers should also take care in choosing products. Experts say the better ones are easy to understand and don't try to do too much, such as claiming to be comprehensive about all 50 states. And avoid products that linger on store shelve for more than a year or tw Because laws change fr quently, these guides can ea ily become outdated. Th ABA's Slonim gives hig marks to the work of publis ers HALT and Nolo Press, eac of which has been in busines for at least a decade.

Guides often work bes when used as adjuncts to law yers, rather than as subst tutes for them. By providin basic information about th law and legal procedure they can help you formulat questions for your lawyer and understand the doc ments you need to work wit This preparation can signif cantly slash your attorney billable hours. For example, manual on forming a nonpro it corporation by Nolo ($24.9 800 992-6656) can help you d cide whether your group qua ifies before you ever set foo in your lawyer's office. Ar guides such as HALT's *Usin a Lawyer... And What T Do If Things Go Wrong* ca help you shop for the mo appropriate lawyer and secu the best price.

Books dealing with dome tic matters have been arou the longest, and the segme is now bursting with reliab choices. HALT offers a seri of step-by-step guides with tles such as *Probate*. T guides take readers throu the maze of settling an esta buying a house or condomi um, or maneuvering throu small-claims court. They' $8.95 each from Rando House.

Recently, software publis ers have entered the mark OverDrive Systems, a so ware company that serv law firms, introduced the p gram Home Lawyer la

ring. It lets consumers ite 16 basic legal docuents such as leases, sales ntracts, and wills. The packe sells for $69.95 in Eggead Discount Software ores. BLOC Publishing in ral Gables, Fla., sells a mpeting program called rsonal Lawyer for $59.95. th packages walk users rough the drafting of docuents by asking a series of estions.

One of the most popular ograms is Nolo's WillMaker for IBM and IBM-compatible rsonal computers (a Macinsh version is expected soon). illMaker, which lists for 9.95, also allows users to epare a children's trust. ke other estate-planning ides, the software explicitly arns people with assets in cess of $600,000—the level which federal estate taxes k in—to consult with expenced estate attorneys.

After concentrating primarily on the legal needs of individuals, both software and book publishers are now targeting businesses. Last year, Sphinx Publishing in Clearwater, Fla., which has been producing self-help legal material for seven years, came out with a 64-page, $14.95 guide called *How To Register a United States Trademark*. It even comes with the necessary application forms. In June, BLOC Publishing started marketing Personal Lawyer—Business Edition for $99.95. It generates 18 types of legal documents that are often needed in business, such as rejection-of-goods notices or promissory notes.

Using a self-help legal product, no matter how comprehensive or reliable, can never replace a strategy session with a savvy lawyer. But by boning up on the basics, you can at least keep your lawyer's meter from running too long. *Michele Galen*

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Product	Publisher	Price	Description
Dog Law **Mary Randolph**	Nolo Press Berkeley, Calif.	$12.95	Everything you need to know about legal rights of dogs and owners
Home Lawyer	OverDrive Systems Cleveland	69.95	Software for creating wills, leases, other simple legal documents
How to Form Your Own Nonprofit Corporation **Anthony Mancuso**	Nolo Press	24.95	Scads of tax and legal considerations, with forms, state rules
Write Your Own Will **Robert J. Schwartz**	Collier Books New York City	4.95	Suggestions from a lawyer on how to draft, close, sign, and execute a will
You and the Law **American Bar Assn.**	Publications International Lincolnwood, Ill.	19.98	How legal system works, with sample forms, answers to common questions

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Autos

OING TO THE SHOWROOM? HINK RESALE FIRST

f you're buying a new car, now is the time to consider what it will sell for when u're ready for your next e. A sweet deal can turn ur if the car doesn't hold its lue, especially with the ed-car market in a slump. Here, then, is a look at ne 1988 cars and how much their value they retain to- (table). The list, which n also serve as a ide for second-hand shoppers, covers a ss section of domesand imported cars t might appeal to SINESS WEEK readers. ne of the lost value, the way, is because of ign changes that make the 8 models look stodgy comed with newer ones. eading by a wide margin a Honda, a Toyota, and an s. These midsize, four-door ans are basic family vehi- that appeal to many car ppers. As in other categories, domestic sedans have narrowed the quality gap with imports in recent years, but wary used-car buyers still give the nod to imports.

It isn't unusual for high-priced imports to lose their value quickly. Not many buyers in that segment are searching used-car lots to save a grand or two. That's why a BMW is paired at the bottom of the list with a low-priced Hyundai.

The Plymouth Voyager doesn't stack up very well, either, even though the minivan's robust sales have largely shielded it from rebate wars. But have you tried to find a two-year-old minivan lately? Loyal buyers just don't trade them in that soon. When you do find one, watch out. The average two-year-old vans for sale "tend to be pretty well beat," according to Bill Geen, who tracks used-car values for insurance companies at Chicago's CCC Information Services.

OFF-ROAD VERVE. The Chevrolet Blazer does about as well at resale time as the Volvo 240GL wagon and a number of other imports and domestic luxury cars. As the Blazer shows, if a car is a hot seller new, it's probably jumping off used-car lots, too. Although the Blazer doesn't get great gas mileage, sales of off-road vehicles have held up because young, successful business types like the rugged, individualistic image.

Past performance is no guarantee, and prices vary from market to market. But if you want a long-term good deal, keep resale value in mind as you shop for, and maintain, your next car. *Jim Treece*

WHAT CARS SELL FOR THE SECOND TIME AROUND

Model	Sticker price, 1988 model	Average retail value, July 1990	Percentage of sticker price retained
HONDA ACCORD DX SEDAN	$10,535	$ 8,925	84.7%
TOYOTA COROLLA DELUXE	8,898	7,275	81.8
OLDSMOBILE CUTLASS CIERA SL	10,656	8,275	77.7
MERCEDES-BENZ 300E	42,680	30,250	70.9
VOLVO 240GL WAGON	21,110	14,850	70.3
CHEVROLET BLAZER TAHOE	16,500	11,550	70.0
CADILLAC DE VILLE SEDAN	23,049	15,975	69.3
PLYMOUTH VOYAGER LE	18,500	11,950	64.6
BMW 735I	53,000	32,000	60.4
HYUNDAI EXCEL GLS	7,750	4,600	59.4

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Management

ALL THE RIGHT MOVES FOR INTERVIEWERS

How many times have you hired a manager only to find out he or she didn't meet your expectations on the job? Bad hires not only make life miserable for everyone involved but can lead to messy legal entanglements later on. That's why companies such as Polaroid and TRW are using "behavioral interviewing" to gain greater insight into job candidates.

The goal is to get the person to address hypothetical situations relating to the job so you can get behind the résumé and assess likely performance. Human-resource experts, from New York's Swan Consultants to San Francisco's Management Team Consultants, are advocating the approach. "What you get on a résumé are education and experience," says Jim Kennedy, president of Management Team. "You want to find out how a person is going to do a job, not only whether he has the credentials to do it."

First, provide few details about the job. Otherwise, the candidate is likely to shape answers to your job profile. Let the candidate do most of the talking. Keep questions open-ended, so you don't set yourself up for short answers. For example, don't phrase a question like this: "Would you say you could make decisions under pressure?" A better approach: "Describe a situation where you were under a lot of pressure and had to make quick decisions."

Kennedy suggests four different paths to explore:

- **Problem.** "Give me an example of a problem in which you and your manager disagreed over how to accomplish a goal."
- **Continuum.** "Do your clients lean more toward strategy or tactics, being creative or analytical?"
- **Comparison.** "How would you compare, say, the marketing of consumer goods vs. financial services?"
- **Future.** "A year from now what might your boss say about your work for the company during a performance review?"

Each question, says Kennedy, is meant to draw out behavorial aspects of the candidates: how they deal with problems, what their weaknesses and strengths are, whether their knowledge is transferable to a new job, and how they view themselves in an organization. None of this is foolproof, of course. But it will allow a candidate to help you make a tough decision easier. *John Byrne*

Smart Money

NEW LIFE INSURANCE YOU CAN BORROW FROM—TAX-FREE

So you can't decide what to do about that CD that's about to mature. Stocks are volatile, interest rates are dizzying, and there's a whiff of higher taxes in the air. Once, the answer might have been putting the money to work in a single-premium life-insurance policy: no price risk and a clutch of tax advantages.

Congress squelched such policies in 1988, basically requiring seven years of premiums. But now, most of the benefits can be had in a product generically called "seven-pay life." Among the entries are Charter 7 from Charter National Life Insurance, Merrill Lynch Life Agency's ML-7, and Prime Plan 7 Combo from Monarch Life Insurance. They combine a life policy with an annuity, usually require a $10,000 minimum stake, and have a sales pitch that goes something like this:

"You still give us the money in one lump, so it all earns interest from day one, just like before. One-seventh pays the first year's premium on a whole-life policy that earns tax-deferred interest. The rest buys an annuity. Then, each year for six years, we dip into the annuity to pay the insurance premiums. After seven years, the annuity is gone, but your life policy is paid up, and the cash value keeps growing, tax-deferred."

Some insurers set a new interest rate each year on the investment dollars in the policy and annuity. For example, Charter currently pays 8%; Merrill Lynch, 7%. Other plans have a variable rate, and policyholders can choose among different mutual funds, too.

In any case, the companies say you can borrow from the life policy tax-free—for tuition, a new house, or anything else. You don't have to repay the loans, though that reduces the death benefit that eventually goes to your beneficiaries. The longer you wait to borrow, of course, the more you can borrow, because the money feeds into the insurance policy only in those seven annual chunks.

> Most 'seven-pay life' policies require a $10,000 stake

Other considerations: During the seven-year period you do have to pay taxes on the interest that accrues on the annuity. And the insurance death benefit may look small in relation to your investment. For example, a 40-year-old male who puts $100,000 in Merrill Lynch's ML-7 contract buys a death benefit of only $360,000. "It's not a product for the younger needing a big death benefit to protect a growing family now," says Alan Blank, chairman of PAMCO, which markets Charter 7 to banks and S&Ls for sale to their customers. Rather, "it's for someone thinking about the living benefits"—tax-deferral, stable value, and non-taxable loans. *Don Dunn*

Collecting

ARROUSEL CRITTERS THAT FETCH A KING'S RANSOM

Remember the joys of riding a carousel? Bobbing up and down on a magnificent steed to the blare of organ music while your parents waved from the ground. For many, merry-go-rounds have long held nostalgic value. Around 1983, carousel figures started becoming hot collector's items—and prices have been galloping ever since. To own a hand-carved creature that children once paid 10¢ to ride, adults now dish out thousands.

For decades, these objects were considered nearly worthless. Many were discarded or plowed away when the carousels they graced were disassembled. But if you have one languishing in a barn or attic, you might want to dust it off and shop it around. Marianne Stevens, a New Mexico restorer, says a tiger she bought in 1973 for $500 sold recently for $55,000. While such phenomenal appreciation is unlikely in today's pricey market, collectors say that a good animal should double in value over the next decade.

The golden age for carousels came in the first third of the 20th century, when more than 5,000 were operating. European carvers brought their craft to the U. S. in the mid-1800s, and by 1900, a domestic trade was flourishing. American-made animals fall into three styles. Coney Island-style is characterized by flamboyant carvings with lots of jewels and color, as represented by the work of Marcus Illions and Charles Carmel. Philadelphia-style is elegant and more naturalistic, and includes among its carvers Gustav and William Dentzel. Animals in the country-fair style, generally the least expensive, are plainer and smaller because they were made for carousels that got packed up and carted from town to town. Its carvers include Charles Dare.

The price of an animal depends on its size and carving detail. Most carousels had 44 to 56 animals distributed in three or four rows. The outside—and most visible—row boasted the largest and most extravagant figures, which command the highest prices.

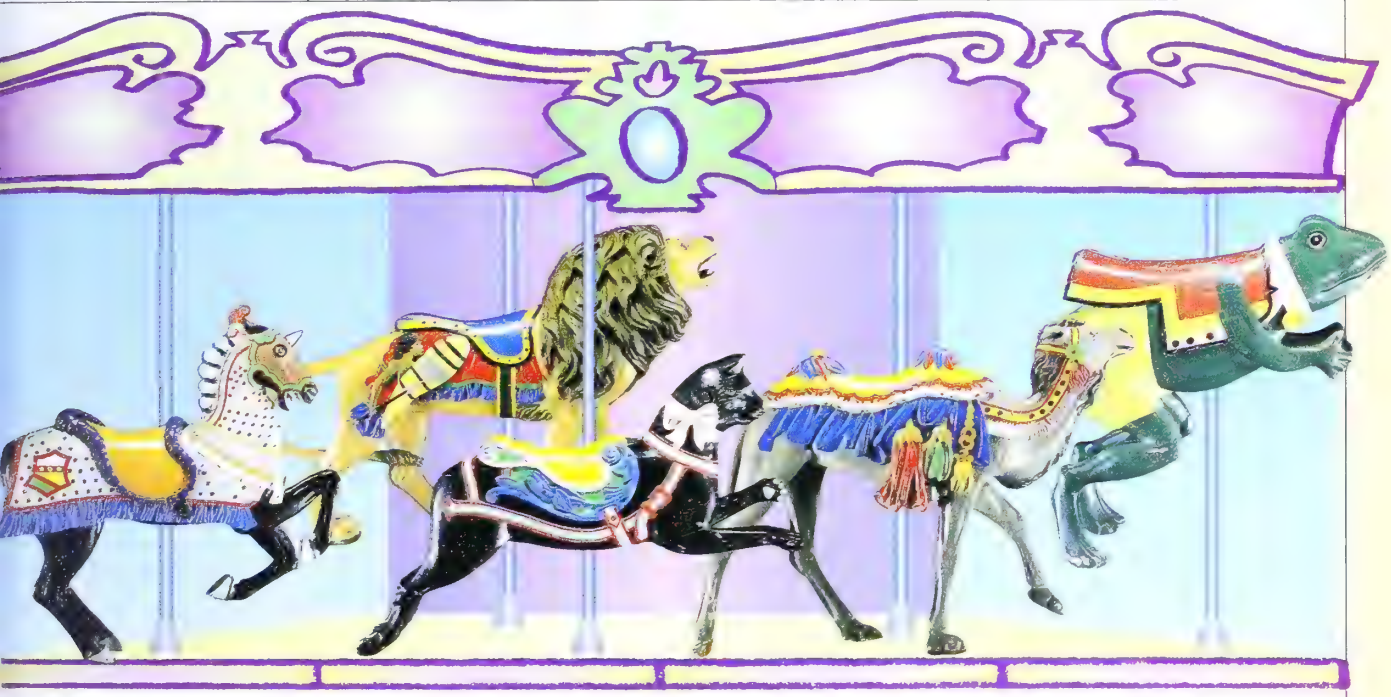
Besides horses, carvers fashioned animals such as tigers, giraffes, and sea monsters. The rarer the creature, the higher the price. Horses with fanciful additions, such as a monkey clinging to the back, are also more valuable.

Experts say you should expect to pay at least $3,000 for an inside-row horse. Sotheby's recorded the highest price ever fetched at auction: $148,000 for a Dentzel rooster last year. Large, well-carved animals run $15,000 to $60,000, sometimes more.

But beware of counterfeits. Hundreds of new hand-carved animals are being imported from Spain, Yugoslavia, and other countries and passed off as vintage animals by unscrupulous or unsuspecting dealers. Nancy Loucks, editor of monthly *Carousel News & Trader* (419 529-4999), knows of enthusiasts who spent $50,000 only to learn that their prizes were new and worth a few hundred dollars.

To avoid getting duped, get an appraisal. Many dealers will evaluate animals in person or by photo for as little as $10; call *Carousel News* for names of reputable dealers in a given area. Also helpful is the quarterly *Carousel Shopper*, a sort of yellow pages for merry-go-round enthusiasts, and William Manns's book *Painted Ponies*. Both are from Zon Publishing, Box 47, Millwood, N. Y. 10546.

If you plan to buy a carousel animal, you'd better have a place to keep it. Says Rochester (N. Y.) collector Wallace Krapf: "It's not something that you can put in a safe-deposit box." Or would want to. *Andrea Rothman*



HAND-CARVED ANIMALS VALUED FROM $15,000 TO $60,000 APIECE TO BE AUCTIONED THIS FALL AT CHRISTIE'S EAST IN NEW YORK

Worth Noting

■ **OLD MONEY.** Before the 1860s, thousands of private banks issued paper money. On Sept. 14-15, Christie's (212 546-1056) will auction more than 4,000 of these notes from the likes of Bull's Head Bank and Iron Bank. Estimates range up to $15,000.

■ **LIGHTEN UP.** Indirect light bounced off ceilings is better than fluorescent lighting for users of video-display terminals, says a Cornell University study. Workers with standard overhead lighting experience greater lethargy.

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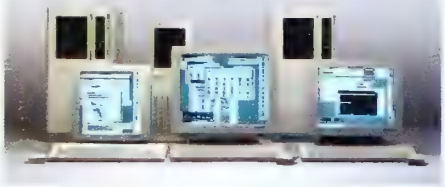

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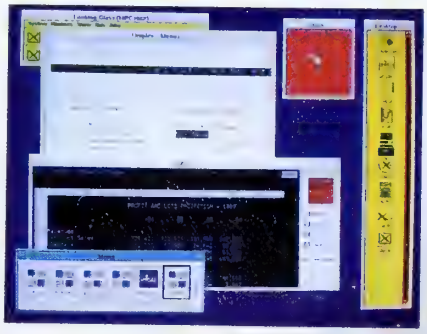

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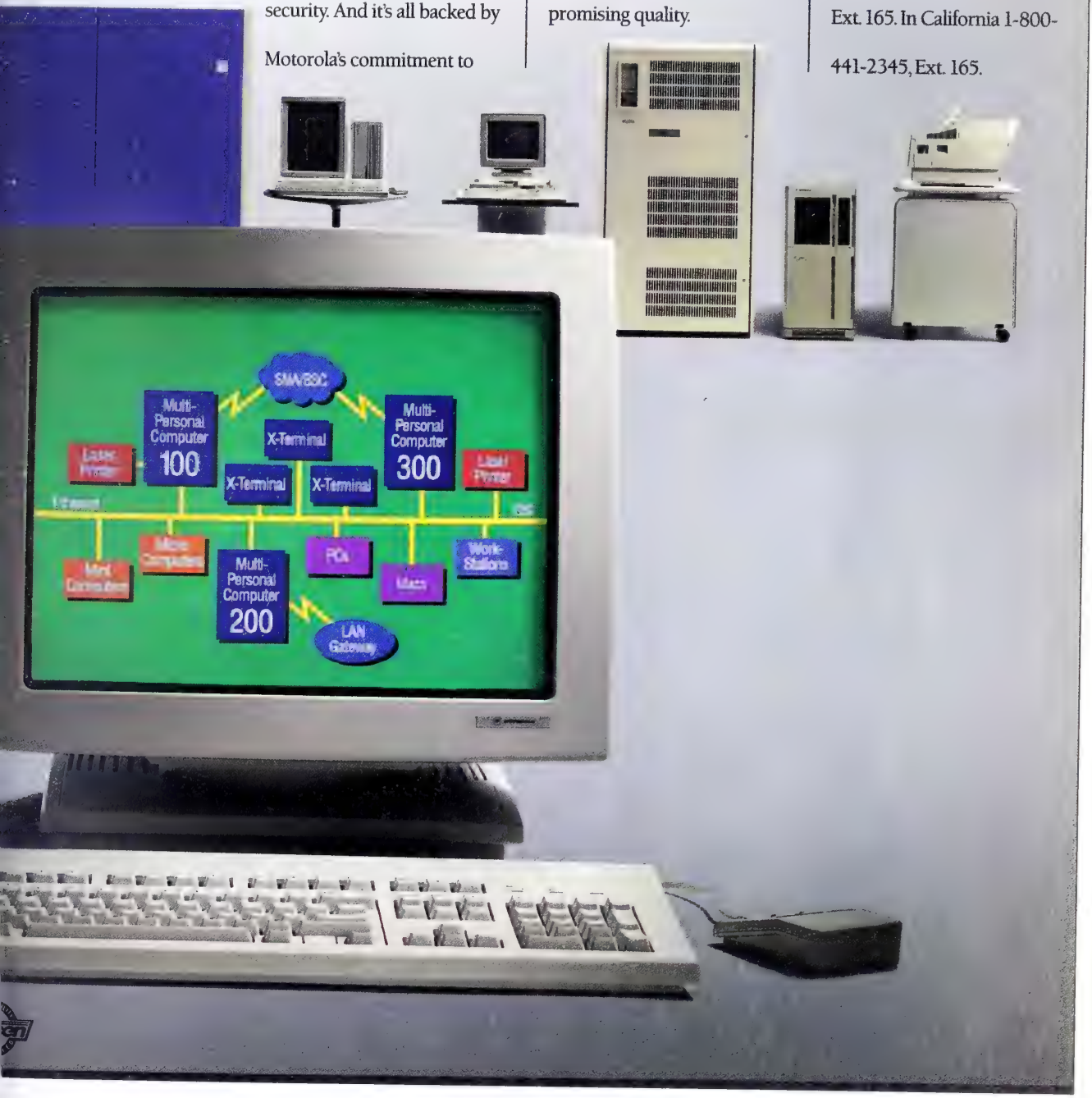

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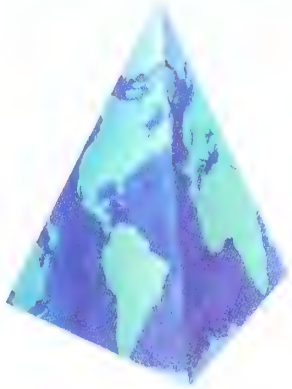

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160D-CA

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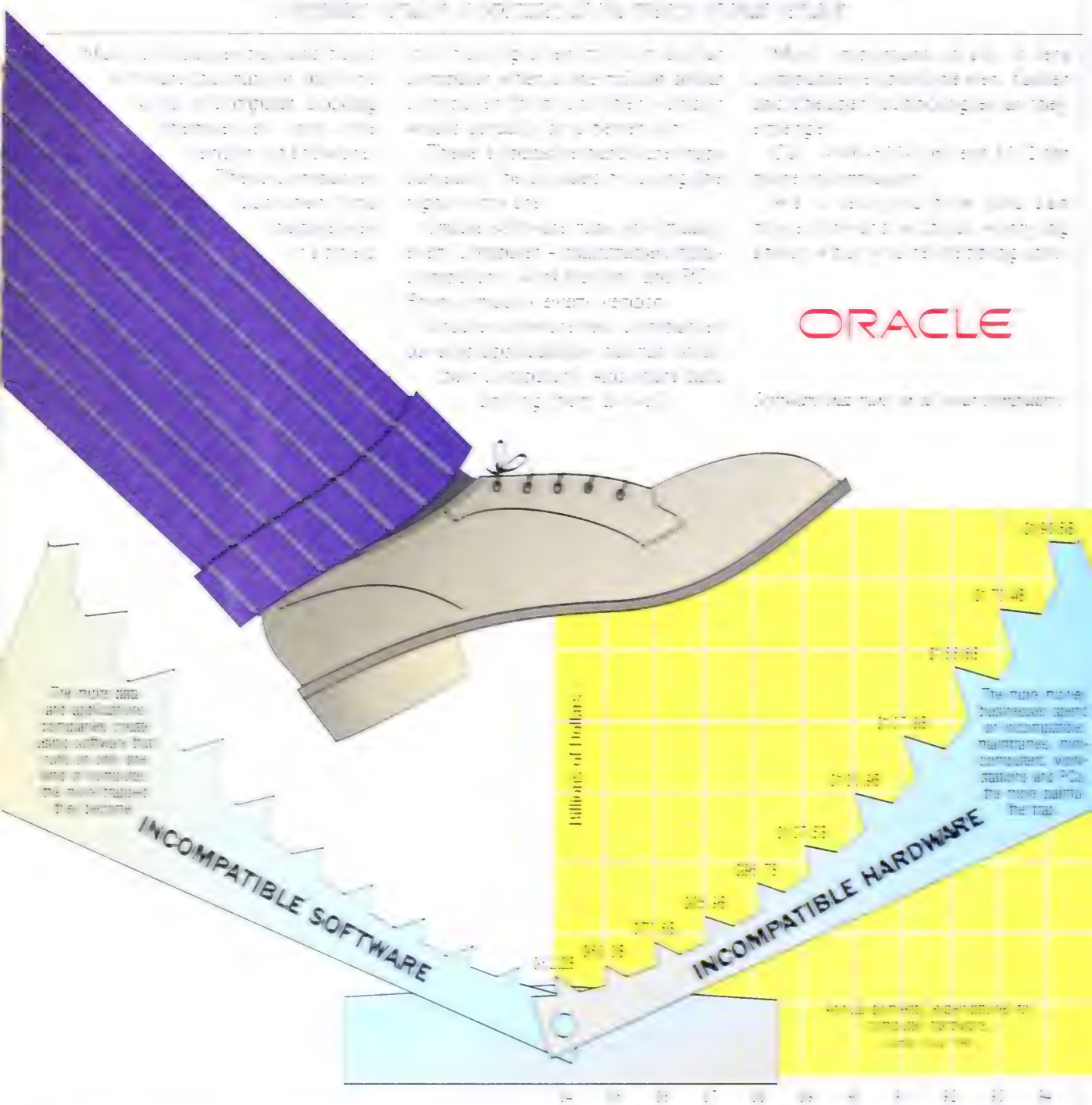
The Problem With Buying Software From A Hardware Company

ORACLE

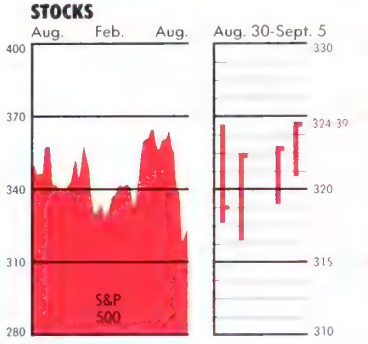


nvestment Figures of the Week

MMENTARY

eek five of the financial mar- s held hostage by the Persian lf crisis. Hopes for a diplomatic eakthrough were dashed, and renewed its climb, hitting near- $30 a barrel. As a result, long- m interest rates also notched After losing 39 points on Aug. the Dow recouped most of the ek's loss, and other U. S. mar- averages ended the week lit- changed. The comeback, ugh welcome, didn't signal lishness. Trading volume was lightest seen all year.

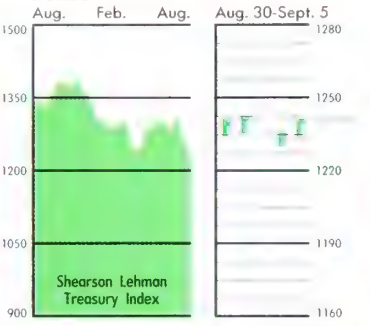
STOCKS



52-week change **–7.1%**

1-week change **0.1%**

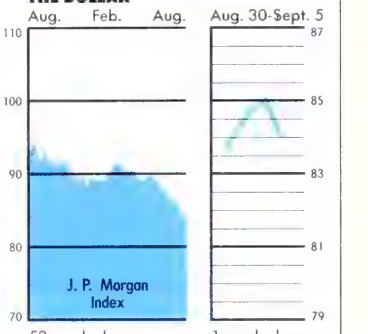
BONDS



52-week change **–7.6%**

1-week change **–0.2%**

THE DOLLAR



52-week change **–10.9%**

1-week change **0.5%**

MARKET ANALYSIS

S. STOCKS	Latest	% change Week	% change 52-week
W JONES INDUSTRIALS	2628.2	–0.2	–3.4
COMPANIES (Russell 1000)	167.6	0.1	–9.1
ALL COMPANIES (Russell 2000)	140.0	0.0	–21.4
. COMPANIES (Russell 3000)	177.8	0.1	–9.9

REIGN STOCKS	Latest	% change (local currency) Week	% change (local currency) 52-week
NDON (FINANCIAL TIMES 100)	2152.2	1.2	–10.0
KYO (NIKKEI INDEX)	24,078.3	–3.3	–29.7
RONTO (TSE COMPOSITE)	3333.2	–0.2	–16.1

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	7.6%	7.7%	8.1%
30-YEAR TREASURY BOND YIELD	9.0%	8.9%	8.1%
S&P 500 DIVIDEND YIELD	3.6%	3.6%	2.9%
S&P 500 PRICE/EARNINGS RATIO	15.2	15.1	13.5

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 26-week moving average	346.2	346.7	Negative
Stocks above 26-week moving average	17.0%	16.1%	Positive
Speculative sentiment: Put/call ratio	0.47	0.45	Positive
Insider sentiment: Vickers sell/buy ratio	1.13	1.16	Positive

NDUSTRY GROUPS

BRIDGE INFORMATION SYSTEMS INC.

UR-WEEK LEADERS	% change 4-week	% change 52-week	Strongest stock in group	% change 4-week	% change 52-week	Price
DIVERSIFIED HEALTH CARE	3.2	16.4	BRISTOL-MYERS SQUIBB	5.1	22.7	61½
SOFT DRINKS	3.0	26.8	PEPSICO	3.1	27.6	24⅞
POLLUTION CONTROL	3.0	19.1	WASTE MANAGEMENT	4.8	29.2	38⅛
TOBACCO	2.6	5.9	AMERICAN BRANDS	6.4	–15.9	66⅝
HOSPITAL MANAGEMENT	2.4	3.5	NATIONAL MEDICAL ENTERPRISES	2.9	–1.7	35¼
UR-WEEK LAGGARDS	**% change 4-week**	**% change 52-week**	**Weakest stock in group**	**% change 4-week**	**% change 52-week**	**Price**
HOMEBUILDING	–14.8	–45.4	U. S. HOME	–33.3	–45.5	¾
MACHINE TOOLS	–12.9	–35.2	CROSS & TRECKER	–26.0	–56.5	4⅝
HEAVY-DUTY TRUCKS	–12.0	–32.2	CUMMINS ENGINE	–18.5	36.4	38½
AIRLINES	–11.9	–57.8	UAL	–16.6	–68.0	91¾
BUILDING MATERIALS	–11.0	–35.4	USG	–16.7	–44.4	2½

MUTUAL FUNDS

MORNINGSTAR INC

ADERS

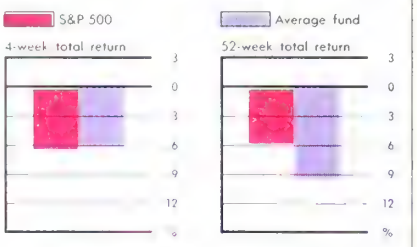
r-week total return	%
DREYFUS CAPITAL VALUE	5.5
FIDELITY SELECT BIOTECHNOLOGY	2.3
AXE-HOUGHTON STOCK	1.5

-week total return	%
EQUITY STRATEGIES	63.8
FIDELITY SELECT ENERGY SERVICE	38.8
FIDELITY SELECT BIOTECHNOLOGY	33.2

LAGGARDS

Four-week total return	%
STEADMAN OCEANOGRAPHIC TECHNOLOGY	–19.3
PRUDENT SPECULATOR LEVERAGED	–19.1
BULL & BEAR SPECIAL EQUITIES	–16.2

52-week total return	%
PRUDENT SPECULATOR LEVERAGED	–46.0
WASHINGTON AREA GROWTH	–36.4
STEADMAN OCEANOGRAPHIC TECHNOLOGY	–34.9



RELATIVE PORTFOLIOS

DATA RESOURCES INC.

llar amounts
resent the present
lue of $10,000
ested one year
o in each portfolio

centages indicate
-day total returns

Money market fund	Gold	Treasury bonds	U. S. stocks	Foreign stocks
$10,703	**$10,612**	**$9,937**	**$9,326**	**$8,925**
+0.14%	–1.76%	–0.19%	+0.51%	–1.10%

data on this page are as of market close Wednesday, Sept. 5, 1990, unless otherwise indicated stry groups include S&P 500 companies only; performance and share prices are as of market close

Sept. 4. Mutual fund returns are as of Aug. 31. Relative portfolios are valued as of Sept. 4. A more detailed explanation of this page is available on request

PEACEKEEPING HAS ITS PRICE

Collective security, also known as burden sharing, is an idea whose time has come—once again. President Bush has revived it by enlisting support from Arab countries, European allies, the Soviets, and even the Chinese for the U.S.-led effort to halt Iraqi aggression. If Bush succeeds, he will set a precedent for joint action by nations, large and small, to quell other breaches of the peace.

Such attempts at international peacekeeping have mostly failed in the past. The League of Nations was crippled by the U.S. refusal to join. In 1950, the U.S. managed to gather a multinational force under the U.N. banner to fight off North Korea's assault on South Korea. But for most of the next four decades, the U.S.-Soviet standoff hobbled U.N. peacekeeping. A critical difference in the past few years is that Washington and Moscow have been able to find common interests in damping down conflicts from Afghanistan to Nicaragua and Cambodia.

Joint peacekeeping can succeed, however, only if all major partners accept the trade-offs required. Egypt's dispatch of troops is a crucial contribution, affirming Arab countries' stake in halting Saddam's aggression. In return, by canceling $7 billion of Egypt's arms debt, the U.S. can help ease the economic strain on Cairo. But Japan and Germany must not be allowed to contribute only cash; they must share political responsibility by sending personnel such as medical teams to the gulf, even though their constitutions bar a military role. And the U.S., to sustain such cooperation, will have to give up some of its freedom to act unilaterally. U.S. allies, new and old, must be consulted before any decision to unleash the military power being built up in the gulf. They will also demand that the economic embargo be given time to work before they will approve military action.

Only the U.S. has the strength and will to lead a new attempt to build a structure of collective security. But that kind of system demands the sharing of decision-making and political responsibility, as well as costs, with other nations. The crisis in the gulf will test the ability of the U.S. to balance these requirements over a long period. President Bush, and all Americans, will need patience as well as resolve to make the effort pay off.

THE CENSUS BUREAU NEEDS SOME NEW MATH

The first results of the 1990 census are in, and from the point of view of cities and states in the Northeast and Midwest, they are even worse than expected. The preliminary count shows an accelerating shift of population from the cities to the suburbs, from the heartland to the coasts, and from the Frost Belt to the Sunbelt. With billions of dollars of federal money and the distribution of congressional seats at stake, the data have inspired cries of despair and that most American of responses—threats of lawsuits

It's far from clear how the courts will resolve legal challenges by New York and other cities, which have been pending since 1987. The complaint is that the government still hasn't devised an adequate method for counting question-averse minorities and the homeless. But even if the U.S. Census Bureau persuades judges to leave it alone, the government has a lot of work to do to convince politicians and the public that its count was fair and accurate.

The 1990 count got off to a bad start, with reports of lost forms, skipped neighborhoods, and an uncooperative public. There are things the Census Bureau could do to restore confidence. It should describe in detail, and in language that the lay public can understand, what it is doing to validate the accuracy of its counts, especially the surprisingly low population totals for New York and other large cities. It should explain how it is correcting the "undercount" of the homeless, the squatters, the illegal tenants, and other difficult-to-count inhabitants of inner cities. And finally, the agency should continue to experiment with advanced statistical techniques that could supplement, or perhaps someday even replace, the general head count.

The government has some work to do to convince the public that its numbers deserve to be believed.

IT'S TIME TO SHRINK THE WEAPONS LABS

In the early 1940s, the U.S. government secreted hundreds of top scientists in the New Mexico desert and told them to build an atomic bomb. The Manhattan Project revolutionized weaponry—and planted the seed for a network of national weapons laboratories. Today, the Energy Dept. spends some $7 billion annually to keep 17,500 scientists and engineers working at the three big weapons labs—Los Alamos, Sandia, and Lawrence Livermore National Laboratories—and at assorted bombmaking facilities.

But with the end of the cold war, concedes one Energy Dept. official, the reason why the facilities were created—the fear of the Soviets—no longer exists. So when Congress cuts the budget for advanced nuclear weapons, the key question is whether to shrink the laboratories—or put the scientists to work on other tasks.

Naturally, lab directors are arguing fiercely that their scientists could clean up the environment, boost U.S. industrial competitiveness, and educate a nation that is more and more scientifically illiterate. But the truth is that they haven't been very adept at transferring their research, such as the expensive studies on alternative energy in the 1970s to the private sector. That's why the labs should continue to focus on important but narrowly defined national needs. Examples include improving methods of arms-control verification, concocting advanced new materials for future aircraft, and figuring out ways to keep tanks and other military equipment running in the face of sandstorms and desert heat. If these missions yield new ideas and technologies for the private sector, great. But in this time of budget deficits, let's not waste big money on vague hopes.

September 24

VAN STRATEGY ▶ GTE AFTER

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ASHION PAGE 143

BusinessWeek

SEPTEMBER 24, 1990 A McGRAW-HILL PUBLICATION $2.00

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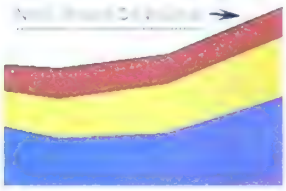

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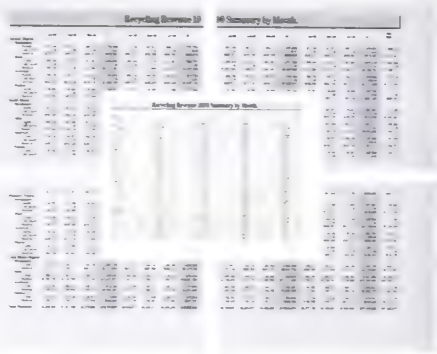
5,734,905	16,249,604
3.610 029	12 880 958

You can add words, freehand drawing and symbols to make your point more persuasive.



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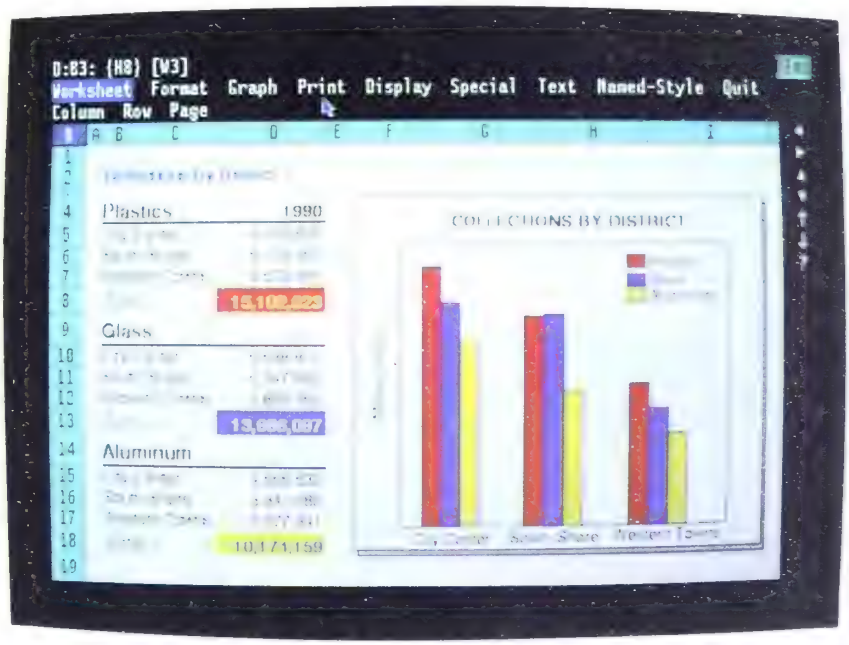

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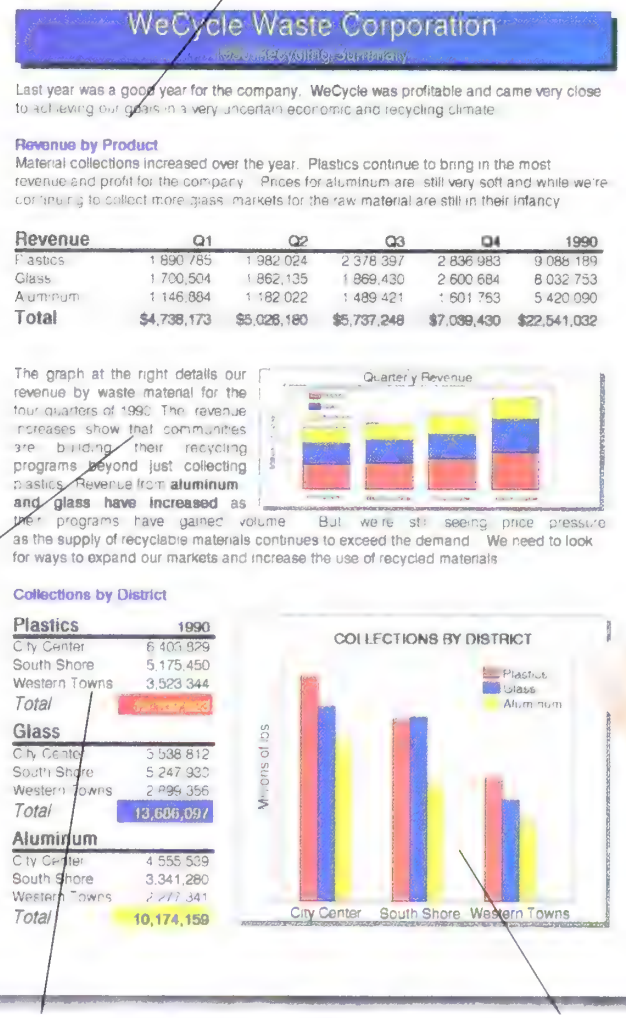
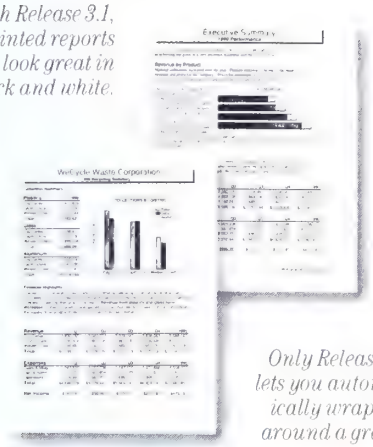
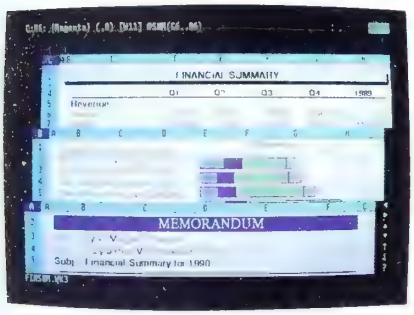


With Release 3.1, printed reports look great in black and white.



Only Release 3.1 lets you automatically wrap text around a graph.



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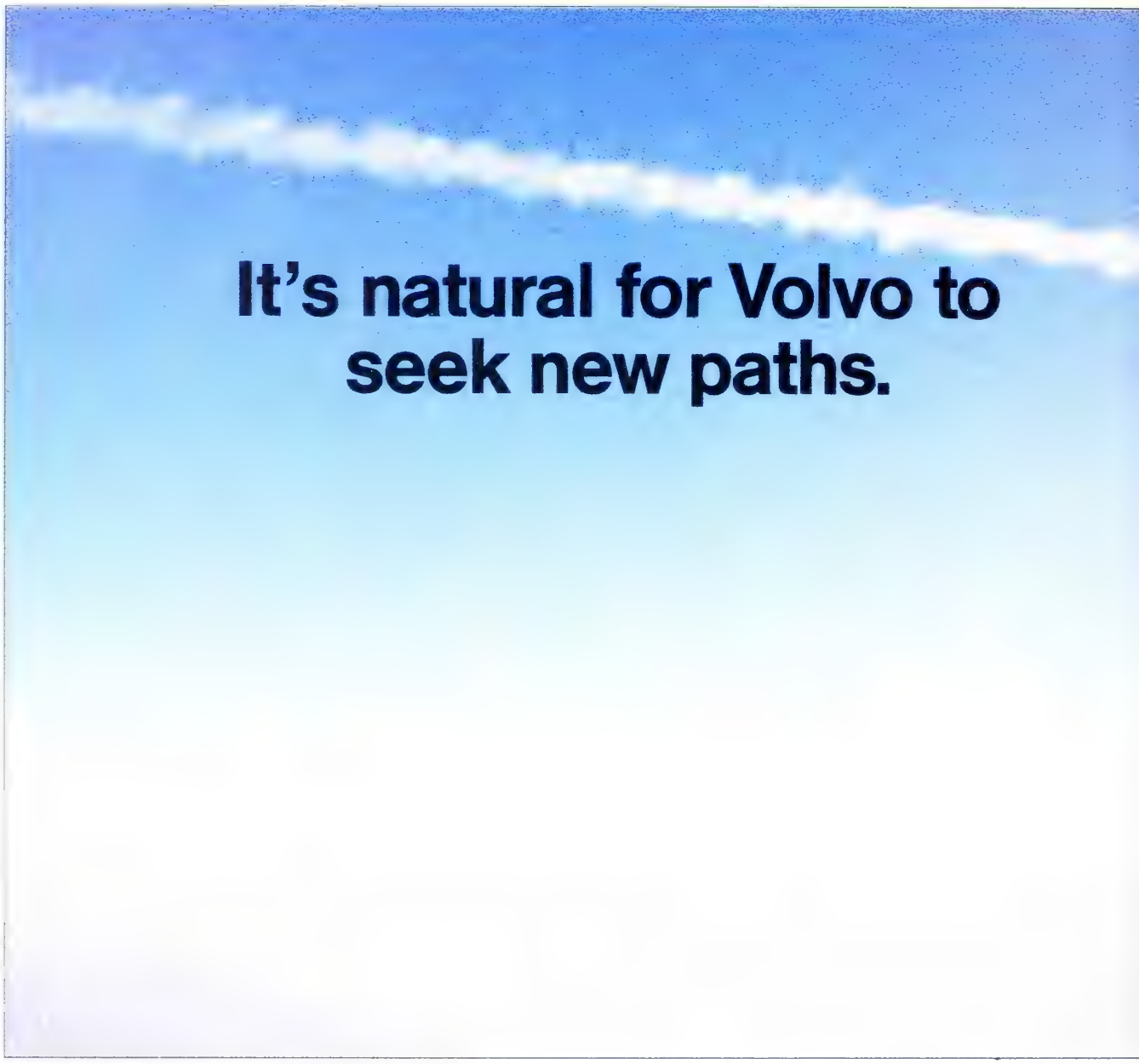

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For us, it is second nature to meet new technological challenges and extremely high quality demands. Consider, for example, the military jet engines we develop and make for the Swedish Air Force. Following that path led us naturally into a civilian aerospace program, with such partners as General Electric, Pratt & Whitney, Garrett and Rolls Royce. The commercial aviation activities today rank as the largest business operation of Volvo Flygmotor.

A major step forward was our involvement in the European Ariane space project. Since the early 1970s, Volvo has supplied the combustion chamber and nozzle for the powerful engines of the Euro rocket. Now we're deeply involved in the latest generation of Ariane rockets which are fuelled by liquid hydrogen and oxygen.

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The next step into space will be a space ane. West Germany and France are rrently waging a hi-tech struggle, with mpeting programs aimed at developing a ue space plane. The odds are excellent at Volvo will be playing its role in helping e first space plane take off shortly after e year 2010.

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VOLVO

NUMBER 3179

BusinessWeek

SEPTEMBER 24,

A MITSUBISHI ECLIPSE COMES OFF THE LINE IN NORMAL, ILL.: FOR THE JAPANESE GIANT, AN INCREASINGLY VISIBLE STREAM OF PRODUCTS

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Japan's biggest industrial group is setting its trademark three diamonds everywhere from Rockefeller Center to Riyadh. Its secret: A family of hundreds of companies that don't depend on formal controls but instead recognize their common interests. What has emerged, says one observer, 'is the Mitsubishi-fication of the world'

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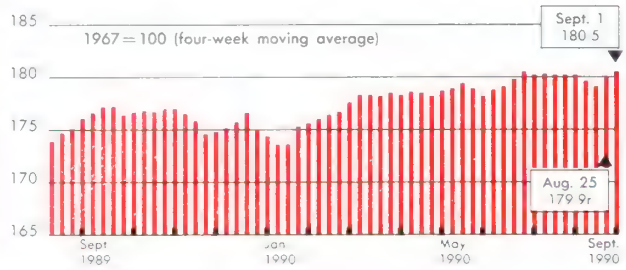
BusinessWeek Index

PRODUCTION

Change from last week: 0.3%
Change from last year: 2.5%

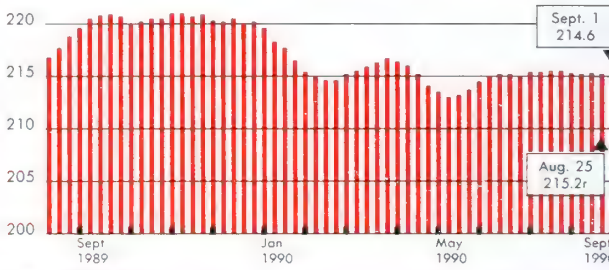


The production index increased for the week ended Sept. 1. On a seasonally adjusted basis, output of autos and trucks rose, while steel, coal, lumber, rail-freight traffic, and electric power production declined. Crude-oil refining was flat, and data for paper and paperboard were unavailable. Before calculation of the four-week moving average, the index dropped to 181.4, from 182.8 in the previous week. For the month of August, the index stood at 180.2, unchanged from July's level.

B-W production index copyright 1990 by McGraw-Hill, Inc.

LEADING

Change from last week: –0.3%
Change from last year: –2.3%



The leading index declined for the week ended Sept. 1. Stock prices were slightly higher, but that gain was more than offset by higher bond yields, and slower growth rates of materials prices, real estate loans, and M2. The number of business failures was virtually unchanged from the previous week. Before calculation of the four-week moving average, the index dropped to 213, from 214.7. For the month of August, the index fell to 214.7, from 215.5 for July.

Leading index copyright 1990 by Center for International Business Cycle Research

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
STEEL (9/8) thous. of net tons	1,886	1,900 =	11.1
AUTOS (9/8) units	111,612	125,586r =	3.2
TRUCKS (9/8) units	66,770	74,338r =	3.0
ELECTRIC POWER (9/8) millions of kilowatt-hours	61,653	65,279 =	9.4
CRUDE-OIL REFINING (9/8) thous. of bbl./day	14,309	14,176 =	1.5
COAL (9/1) thous. of net tons	20,652 =	20,871	2.8
PAPERBOARD (9/1) thous. of tons	NA =	731.1	NA
PAPER (9/1) thous. of tons	NA =	767.0	NA
LUMBER (9/1) millions of ft.	475.5 =	479.9	–8.3
RAIL FREIGHT (9/1) billions of ton-miles	21.1 =	21.0	5.5

Sources: American Iron & Steel Inst., *Ward's Automotive Reports*, Edison Electric Inst., American Petroleum Inst., Energy Dept., American Paper Inst., WWPA[1], SFPA[2], Association of American Railroads.

FOREIGN EXCHANGE

	Latest week	Week ago	Year ago
JAPANESE YEN (9/12)	138	142	147
GERMAN MARK (9/12)	1.59	1.56	1.98
BRITISH POUND (9/12)	1.86	1.90	1.56
FRENCH FRANC (9/12)	5.31	5.23	6.67
CANADIAN DOLLAR (9/12)	1.16	1.15	1.19
SWISS FRANC (9/12)	1.32	1.30	1.71
MEXICAN PESO (9/12)[3]	2,885	2,888	2,557

Sources: Major New York banks. Currencies expressed in units per U. S. dollar except for British pound expressed in dollars

PRICES

	Latest week	Week ago	% Change year ago
GOLD (9/12) $/troy oz.	382.050	383.300	6.6
STEEL SCRAP (9/11) = 1 heavy, $/ton	115.50	115.50	7.4
FOODSTUFFS (9/10) index, 1967 = 100	212.9	212.6	–1.4
COPPER (9/8) ¢/lb.	132.8	133.6	–1.0
ALUMINUM (9/8) ¢/lb.	85.8	82.0	8.2
WHEAT (9/8) = 2 hard, $/bu.	2.79	2.85	–34.7
COTTON (9/8) strict low middling 1-1/16 in., ¢/lb	73.36	74.97	7.3

Sources: London Wed. final setting, Chicago mkt., Commodity Research Bureau, *Metals Week*, Kansas City mkt., Memphis mkt.

LEADING INDICATORS

	Latest week	Week ago	% Cha year
STOCK PRICES (9/7) S&P 500	322.84	321.65	
CORPORATE BOND YIELD, Aaa (9/7)	9.57%	9.56%	
INDUSTRIAL MATERIALS PRICES (9/7)	106.4	105.3	
BUSINESS FAILURES (8/31)	294	292	5
REAL ESTATE LOANS (8/29) billions	$379.4	$380.1	
MONEY SUPPLY, M2 (8/27) billions	$3,313.5	$3,312.2r	
INITIAL CLAIMS, UNEMPLOYMENT (8/25) thous.	370	382	1

Sources: Standard & Poor's, Moody's, *Journal of Commerce* (index: 1980 = 100), Dun Bradstreet (failures of large companies), Federal Reserve Board, Labor Dept. CIBCR seasonally adjusts data on business failures and real estate loans.

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Cha year
BUSINESS WEEK PRODUCTION INDEX (Aug.)	180.2	180.2	
BUSINESS WEEK LEADING INDEX (Aug.)	214.7	215.5	
EMPLOYMENT, CIVILIAN, MILLIONS, (Aug.)	117.7	118.0	
UNEMPLOYMENT RATE, CIVILIAN (Aug.)	5.6%	5.5%	

Sources: BW, CIBCR, BLS

MONETARY INDICATORS

	Latest week	Week ago	% Cha year
MONEY SUPPLY, M1 (8/27)	$815.4	$817.6r	
BANKS' BUSINESS LOANS (8/29)	317.5	319.7r	
FREE RESERVES (9/5)	217	–182r	–7
NONFINANCIAL COMMERCIAL PAPER (8/29)	144.2	145.0	1

Sources: Federal Reserve Board (in billions, except for free reserves, which are expressed a two-week period in millions).

MONEY MARKET RATES

	Latest week	Week ago	Yea ago
FEDERAL FUNDS (9/11)	8.08%	8.17%	8.96
PRIME (9/12)	10.00	10.00	10.50
COMMERCIAL PAPER 3-MONTH (9/11)	7.89	7.84	8.68
CERTIFICATES OF DEPOSIT 3-MONTH (9/12)	7.96	7.91	8.71
EURODOLLAR 3-MONTH (9/5)	7.93	8.08	8.86

Sources: Federal Reserve Board, First Boston

= Raw data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipm
1 = Western Wood Products Assn. 2 = Southern Forest Products Assn. 3 = Free market value NA = Not available r = revised NM = Not meaningful

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Readers Report

TO GET NEW BLOOD ON THE HILL, GIVE LAWMAKERS ONE TERM

The House of Representatives is full of people who spend at least one half of their two-year term running for reelection. Is this productive? Learning the ropes? Senators do the same, they just spend twice as long doing it. ("Reforming Congress: Why limiting terms won't work," Economic Viewpoint, Aug. 6).

The answer is just one term for each type of office—say, four years for representatives and eight for senators. The reward for excellence is that an individual could hold each type of office, for one term each. This gives an opportunity for 12 years of service, with no special interests to be answered to, and an injection of new blood into the present tired system.

Let something new happen. We don't know that it won't work if we don't try.

Jim Griggs
Bryan, Tex.

Gary Becker is concerned that limiting the terms of members of Congress will cause them to spend less time on legislation and more time on outside interests.

So what's his point?

Tony Lima
Hayward, Calif.

ANOTHER READING OF TRAVELERS' 'ROAD MAP'

We believe BUSINESS WEEK not only misunderstands our strategy but does not grasp the strength of our approach to managed care ("Travelers is drawing itself a tortuous road map," Finance, Sept. 3).

Our managed-care and employee-benefits business covers almost 9 million people. That gives us twice the market share you reported, but more important, it gives us the competitive scale needed to support a structure for controlling our customers' health care costs.

Here are a few other facts you failed to mention:

Net income from our Managed Care & Employee Benefits Operations in 1989 was almost $90 million; through the first half of 1990, net income was 66% ahe of 1989.

Our provider networks cover 130 m jor metropolitan areas—a major reas why such leading companies as AT& Alcoa, and Wells Fargo Bank have ch sen Travelers.

Travelers wrote a record $1.3 billion new business in 1989, approximate two-thirds of which was new manage care business. Our new business goa for all of 1990 were surpassed by ea July.

But managed care is only part of t story. Travelers has three clearly fined and complementary businesses insurance and investments as well managed health care. These business from property-casualty insurance to pe sion management and financial servic are well-established and continue to p duce substantial revenues and profi For example, our property-casualty re nues in 1989 exceeded $5 billion. O pension and financial services business have more than $29 billion in assets u der management.

Edward H. Budd, c
Travelers C
Hartfo

Editor's note: Our story referred to estimate of Travelers' market share managed health care, not its share the combined managed care and e ployee benefits market.

YELLOWSTONE: FOR ALL LIVING THINGS—INCLUDING PEOPLE

Your article "Preserving Yello stone's 'delicate plumbing'" (En ronment, Aug. 20) reads like an anti velopment brochure from leadi environmental organizations.

The Yellowstone region today h more roadless wilderness and nondev opment land than ever before. Some 7 of the region—an area the size of t state of South Carolina—will never used for such multiple-use activit as grazing, scenic highways, timberi mineral activity, oil and gas explorati ski resorts, or motels and lodges. Wi life and ecology improvements are mo noticeable in the region today than any other time.

We agree that Yellowstone is a spec

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place. We also think that it can and should become a laboratory not just for "saving natural areas," but also for creatively and objectively blending human activity with nature.

William C. Schilling
Executive Director
Wyoming Heritage Society
Casper, Wyo.

IN THE END, LORENZO WILL COME OUT LOOKING LIKE A HERO

When the history of the airline industry in the latter part of the 20th century is finally written, contrary to the views expressed in your editorial, Frank Lorenzo will come out very well, indeed ("How to run an airline into the ground," Aug. 27).

When deregulation hit, Frank Lorenzo was chief executive officer of Texas International Airlines, the smallest of the regional airlines. The small and financially weak carriers were doomed to fail in a new competitive marketplace that was dominated by industry giants and new low-cost entrants such as Southwest Airlines and People Express Airlines. Lorenzo was not preoccupied—or even occupied—with "breaking unions," as you suggest. His central focus was to build a company, and he accomplished that by saving companies imperiled by the new environment.

The bulk of Eastern Air Lines's problems predated Eastern's acquisition by Texas Air. That unfortunate carrier had a long history of union troubles compounded by a mountain of debt. Only at the 11th hour, when the unions once again put fresh demands on the table, which Eastern's board found totally unacceptable, were we invited in to see what we could accomplish regarding saving the airline.

Our efforts to resuscitate Eastern and to position it so that it could survive and someday grow were rebuffed by the self-minded union leaders who refused to reconcile themselves to the new business reality in the industry and ultimately showed a total disregard for the welfare of their members who, unfortunately, have suffered and will suffer for it.

Ultimately, Lorenzo's legacy will be reflected in the airline he and our management built—Continental Airlines, which now numbers 37,000 people, an airline with major hubs in Houston, Denver, Cleveland, and Newark, and a growing international capability stretchi from Tokyo to Paris.

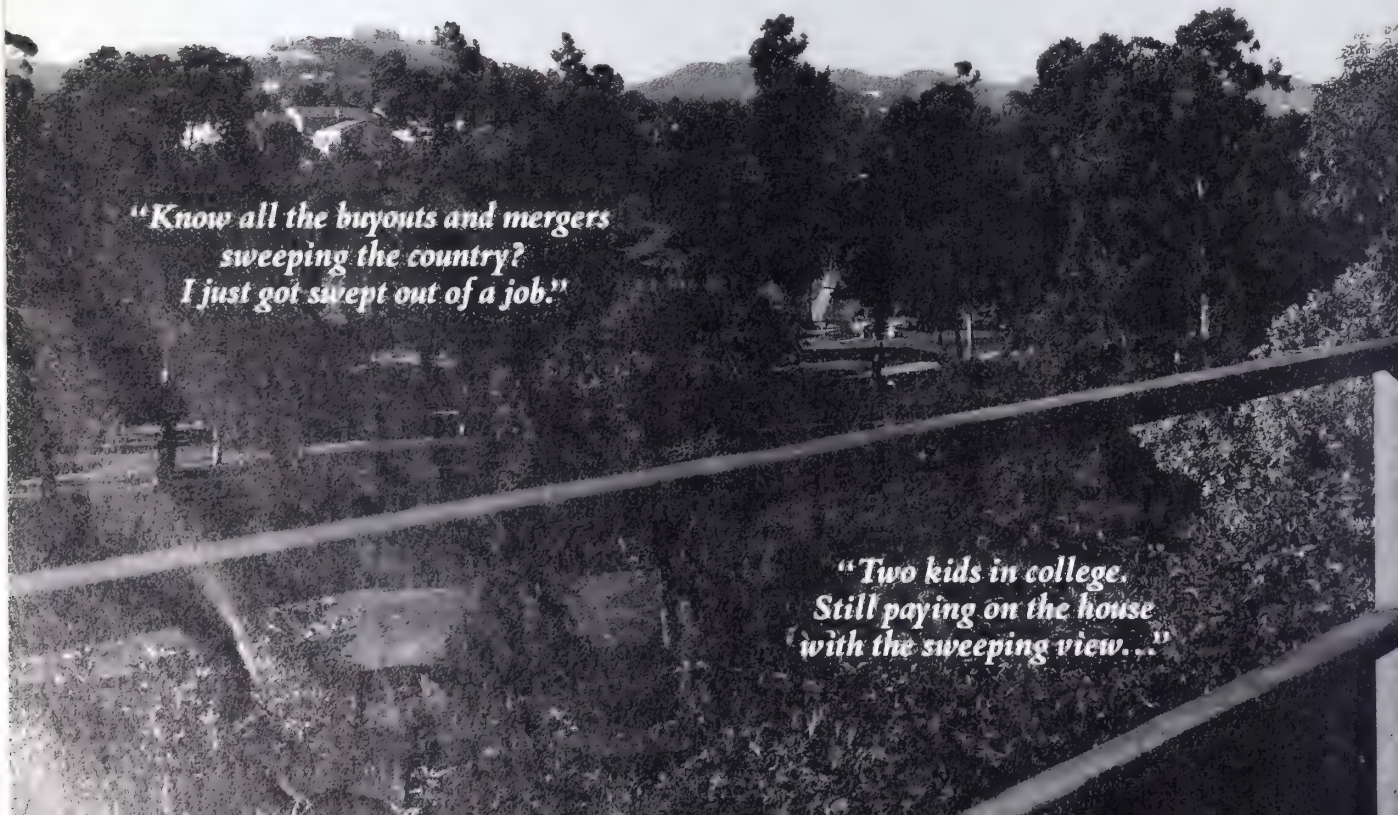
Carl R. Pohl
Minneapo

Editor's note: Mr. Pohlad is a direct of Continental Airlines Holdings In

FUNDAMERICA'S PLAN: 'TO STAY IN BUSINESS'

It's unfortunate that BUSINESS WE waited until it was on deadline befo calling me to comment on a story abo FundAmerica ("100,000 FundAmeri customers couldn't be wrong, cou they?," Top of the News, Sept. 3). T focus of your article was obviously to the troubles of founder Robert Edwar to those of the company. Edwards is longer associated with the company, a much of what's happened since has be directed—positively—at sorting out gal, regulatory, and business problem

We do intend to stay in busine We've developed a revised marketi plan and began discussions with regu tors in two of the eight states where have conducted business. Our preli nary talks have been productive, and plan to present the modified plan to o er state regulators. Once we are in co



iance with the applicable statutes and egulations, we will ask the Bankruptcy ourt to allow us to resume operations. We asked the court to appoint an indeendent examiner to investigate the alleations that have been made against undAmerica, and it has agreed to conder our request. In the meantime, I've rected the company's new auditors, PMG Peat Marwick, and new general unsel, Baker & McKenzie, to investiate and report on all prior accounting id money flows for the company, inuding the transactions between Fundmerica and off-shore entities.

The bottom line is, we think we can tisfy the concerns of regulators and e claims of creditors and others and timately resume operations under the pervision and authority of the court. s far as new management and most of r 100,000 satisfied members are conrned, that can't come soon enough.

Mitchell G. Blumberg, CEO
FundAmerica Inc.
Irvine, Calif.

HIGHER TAX ON'T SOLVE THE GAS CRISIS

n your recent editorial "Don't wait to raise the gasoline tax" (Sept. 3), do u really believe that giving the federal government 50 more cents for every gallon of gasoline purchased is a prudent idea? The government continues to prove every year that it has neither the desire—nor the will—to live within its means.

To quote another editorial, on the reverse discrimination bill ("Please sign this bill, Mr. Bush"), "The new law would simply mandate what the labor market will force companies to do anyway." If this is true, why burden employers with more rules and regulations that hinder them?

The editorials make me wonder whether BUSINESS WEEK believes governmental intervention is the answer to most problems. It would surprise me if a magazine that usually makes good sense in its reporting pages held such erroneous beliefs editorially.

Nick Myers
Anderson, Mo.

CORRECTIONS & CLARIFICATIONS

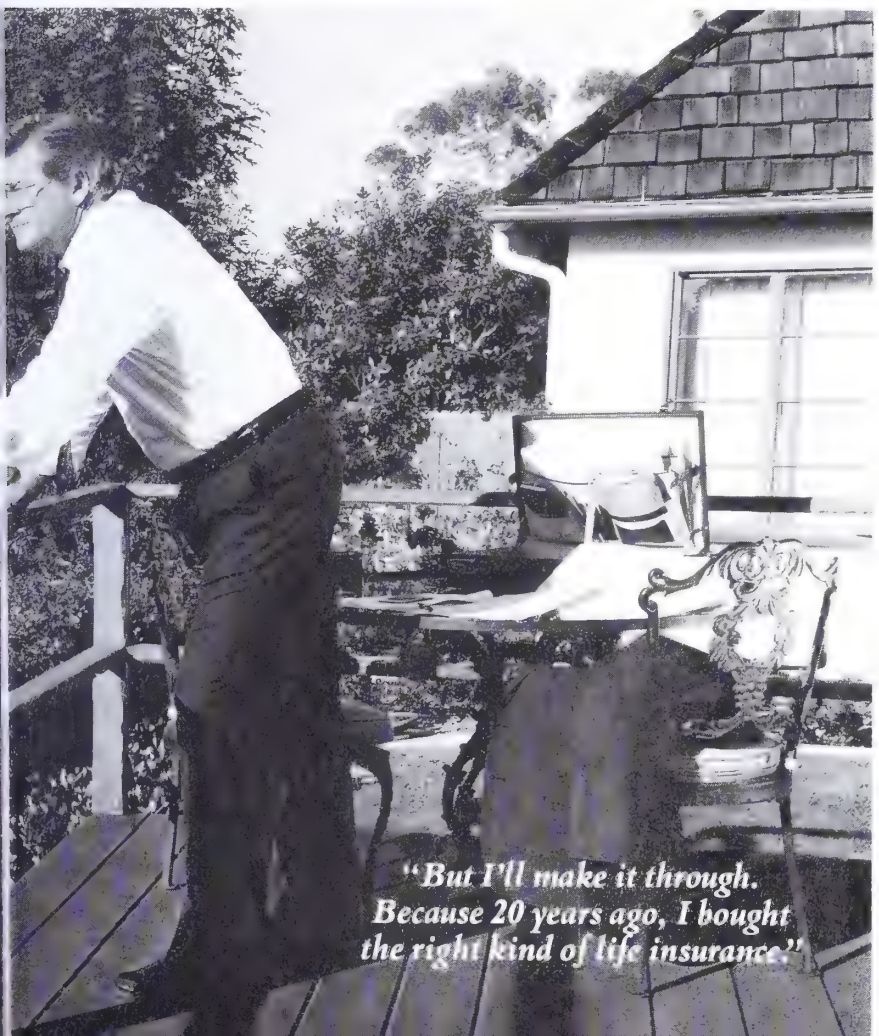
In "Riding the latest curbs on cars" (Inside Wall Street, Sept. 3), we published an incorrect 1990 earnings estimate for Sun Electric by Jonathan Berg of Berg Capital. The correct estimate is $1.50 per share.

BUSINESS WEEK seems committed to a campaign to raise the federal gasoline tax. That would, of course, increase revenue for the government, but I do not believe that it would be a significant strategy to reduce consumption of gasoline. Rather, I believe that the automobile makers and promoters have to take the initiative in this effort.

Recently my husband and I started looking for a replacement for the gas-efficient car we purchased several years ago. We visited a local auto dealer and were surprised at the poor gas mileage on most of the new cars. The salesman told us that for the past several years gas mileage has not been a concern in selling a car. I have been noting the television and magazine ads, and the incentives in the ads for buying a car are financial deals, speed, comfort, prestige, and sometimes safety. Nowhere do the ads mention anything about mileage performance.

Beverly Webster
Bakersfield, Calif.

Letters to the Editor should be sent to Readers Report, Business Week, 1221 Avenue of the Americas, New York, N. Y. 10020. Fax: (212) 512-4464, Telex: 12-7960, Intl. 4998204. All letters must include an address and daytime and evening telephone numbers. We reserve the right to edit letters for clarity and space.



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COLLEGE SPORTS INC.: THE ATHLETIC DEPARTMENT VS. THE UNIVERSITY
By Murray Sperber
Henry Holt • 416pp • $19.95

FRIDAY NIGHT LIGHTS: A TOWN, A TEAM, AND A DREAM
By H. G. Bissinger
Addison Wesley • 357pp • $19.95

HOW SPORTS MANIA IS SACKING AMERICA'S SCHOOLS

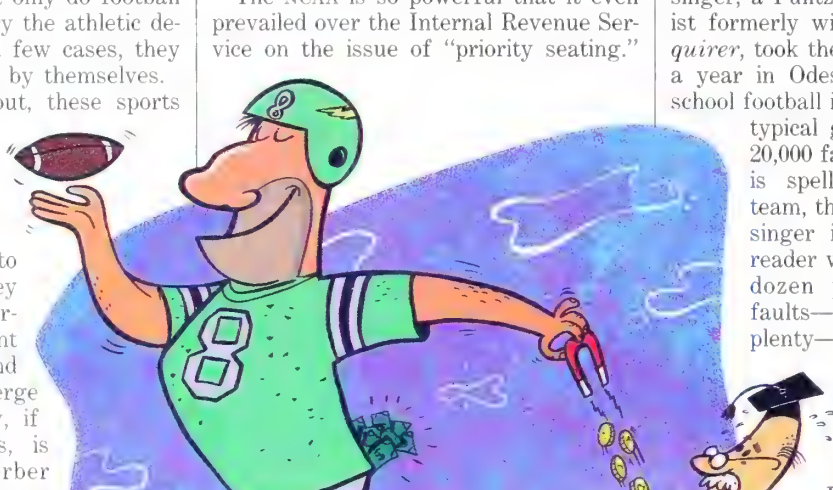
It's almost an article of faith among fans that at major universities the big revenue-producing sports—football and men's basketball—earn enough to support the other athletic programs. Now comes Murray Sperber, a teacher of English and American studies at Indiana University at Bloomington, who argues compellingly in *College Sports Inc.* that this is not so. Not only do football and basketball not carry the athletic departments; in all but a few cases, they are not even profitable by themselves.

As Sperber points out, these sports aren't part of a university's academic mission. They don't teach anything useful, except to the handful of players who go on to the pros. Rather, they are commercial entertainment. That student athletes are used and abused, that they emerge from college with few, if any, employable skills, is well-known. But Sperber goes beyond that disgrace. College athletic departments, he says, are out of control financially. If present trends continue, they will destroy the academic and fiscal integrity of some universities.

Coaches and athletic directors are often so grossly overpaid in relation to their academic colleagues that one must question the priorities of our colleges. (The head football coach and the head basketball coach at Ohio State University, Sperber reports, make close to $400,000, while the average salary of a full professor there is $57,900.) But Sperber documents case after case in which athletic personnel are also overpaid in relation to the amount of revenue they produce. He also cites dozens of examples of schools expanding the seating capacity of stadiums and arenas to make more money. Filling those seats requires a winning team, however—and that costs money. Some coaches spend huge sums to recruit star high schoolers. If the team doesn't win and the seats stay empty, the athletic department must be bailed out, with funds that could have been spent on academics.

Most athletic directors, Sperber writes, are former jocks with little skill at budgeting or controlling costs. Worse, their trade association, the National Collegiate Athletic Assn., likes things just as they are. Says Sperber: "No combination of savvy moves by university presidents could ever convince these people to renounce their self-interests."

The NCAA is so powerful that it even prevailed over the Internal Revenue Service on the issue of "priority seating."



Increasingly, fans who want season tickets on the 50-yard line or at midcourt must make very large donations to athletic departments. Are those donations charitable, or are they the price of a ticket? The IRS, claiming the latter, said they were not tax-deductible. The NCAA disagreed. Congress came up with a compromise. Now, 80% of the priority-seating price is deductible. Scandalous.

The book's chief shortcoming is Sperber's excessive use of secondary sources such as newspapers and magazines. Even so, he mounts overwhelming evidence that athletic departments are costing school after school money. This has to be made up somewhere, usually through higher tuition or activity fees. Unless, that is, you're talking about state colleges, in which case it comes from taxpayers. Moreover, it comes at the cost of the school doing something more worthwhile. Sperber quotes William L. Atchley, president of the Univer sity of the Pacific and former presider of Clemson University, which wa rocked by an athletic scandal: "Whe academics takes a back seat to athletic you have a problem. You no longer hav an institution where people with integr ty want to teach, or where people wi common sense and good values want send their children to learn."

Sperber concludes with a short cha ter proposing sensible solutions, such insisting that athletic programs be eith self-sufficient separate businesses genuine student activities. But perha his chief achievement is alerting us th solutions are needed.

If Sperber depended heavily on t public record for information, H. G. Bi singer, a Pulitzer Prize-winning journa ist formerly with the *Philadelphia I quirer*, took the opposite tack. He spe a year in Odessa to write about hig school football in West Texas, where t typical game draws as many 20,000 fans. *Friday Night Ligh* is spellbinding. Following o team, the Permian Panthers, Bi singer intimately acquaints t reader with the coach and a ha dozen players. For all the faults—and some of them ha plenty—it is obvious Bissing came to like them ve much. His affecti only heightens the su pense in his account the team's 1988 seaso But talk about misplac priorities: When the Pa thers' coach had the misfo tune to lose a key game one point, he found h front lawn filled with F Sale signs the next day. Schoolboy foo ball is so important in West Texas th most teachers wouldn't dare fail a tea star. Bissinger describes one teach who not only gave a player test que tions ahead of time but also gave hi the answers.

Indeed, as Bissinger tells it, the se esteem of the entire community rests the surprisingly spindly shoulders of bunch of teenage boys. The sad moral the story is that West Texans' devoti to high school football convinces the kids that they are above the rules civilized behavior. If *College Sports In* shows in compelling detail the damag that America's obsession with sports doing to higher education, Bissing gives us a memorable picture of o small place where the seeds of that o session are sown.

BY BRENTON WELLIN

Senior Writer Welling edits BUSINE WEEK*'s Sports Business department.*

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GET READY FOR RECESSION BY STRANGULATION

Overregulation is choking the goose that lays the golden egg. And, with retroactive laws blindly dishing out liability to the blameless, business will only get more hamstrung, more timid

The U.S. is poised to enter a new, savory recession, one that will leave [illegible] for effective monetary measures. And [illegible] of uncertainty from the Middle East and the [illegible] of the Japanese and Latin American economies to explode in the U.S. and the world to the present day [illegible].

Typically, U.S. recessions have begun when the Federal Reserve System [illegible] interest rates. Recoveries have followed when the Fed reverses course and lowers interest rates. [illegible] The government has [illegible] to make [illegible] effective in the past, cannot lift an economy [illegible].

Monetary policy presupposes the willingness of lenders to lend and borrowers to borrow. The Fed encourages the former by providing reserves and the latter [illegible]. If confidence is lacking, the Fed can find itself pushing [illegible].

[illegible] being dampened by a variety of regulations [illegible] leave almost any business decision exposed to open-ended liabilities. In today's environment, decisions to build a plant, introduce a product line or promote, transport oil or lend involve potential liabilities that can destroy careers and companies.

Unconsidered regulation has always been expensive to the economy and has driven up the cost of business in many ways. But new punitive developments have led to the assignment of liability regardless of fault, and we now have an unpredictable legal system and a credit crunch that is independent of monetary policy.

GUILT SEEPAGE. Among the [illegible] spurring a credit crunch are the Superfund environmental legislation and the 1989 savings and loan legislation. The Superfund legislation was supposed to clean up the environment, but it provided no government funds for the purpose. Instead, it [illegible] retroactive assignment of liability for waste disposal that was legal at the time of disposal. [illegible] and many users, some of which no longer exist or have gone under, the Environmental Protection Agency and the courts have implemented a policy of sticking the liability on any "deep pocket" [illegible].

This policy has increasingly ensnared banks that lent money to businesses that [illegible] and insurance companies that insured aspects of the businesses, even though [illegible] a policy [illegible] clearly [illegible] for pollution coverage.

Banks that foreclosed to [illegible] have found themselves declared "owners" by courts and held liable for environmental clean-ups. Last May 23, a creative federal appeals court ruled that banks may be held [illegible] for the entire cost [illegible] because [illegible] are in a position to affect hazardous [illegible].

[illegible] the health of the credit system as [illegible] must now assess the potential environmental [illegible] of their loans. It also [illegible] liability [illegible] associated with previous lending.

The 1989 S&L legislation was supposed [illegible]. Instead, the law obliterated capital by destroying the value of S&L charters and made it impossible for S&Ls to meet new [illegible].

As the downward pressure on real estate values spread into the commercial [illegible] accelerated and forced banks into excessive write-downs of their real estate portfolios [illegible].

DOOMED DEALS. The S&L [illegible] the cost of the bailout. Many land loans [illegible] can exceed the value of the land. Moreover, Resolution Trust Corp., which was [illegible] limits, owns numerous contaminated properties and, under the latest ruling, may be sued for cleanup costs.

[illegible] ers are the pending clean air bill with its [illegible] firing and promotion decisions into potential [illegible] unpredictability of accidents. The combination of the Reagan tax-rate cuts and [illegible] causing many businesses to reassess their [illegible].

Interest rates and debt levels are lower in the U.S. than in most industrialized countries. But our own government is a disadvantage. Congress legislates, judges adjudicate, and the Administration [illegible] is in France, Germany, Japan, and Britain. theirs is a great performance compared to our Third World standards.

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A long-ago train whistle is helping

In 1842, Christian Doppler made a curious discovery.

He noticed that a train whistle going away from him had a lower frequency than when it was coming towards him.

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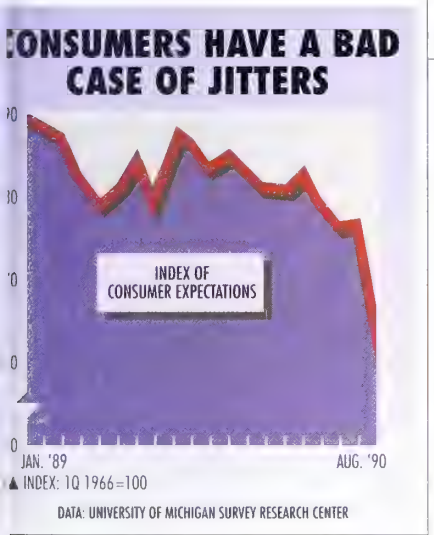
Y KATHLEEN MADIGAN

RUMBLINGS OF WAR, BUT SHOPPERS AREN'T TAKING COVER

The U. S. intervention in the Middle East has forecasters worried that nsumers—who had already cut back me on buying over the past year—will mpletely shut off the spending spigot the second half. And since consumer ending accounts for two-thirds of the oss national product, a decline in usehold shopping would almost cer-inly mean recession.

But just because most surveys show at consumers have a bad case of the



ters doesn't mean shoppers are going cut back, says Michael Evans, head of nsulting firm Evans Economics Inc. ue, the widely cited University of ichigan's index of consumer expecta-ns plunged to 62.9 in August, down m 77.3 in July (chart). The 14.4 point op in this reading of attitudes about ture economic growth was almost ice the plunge that followed the 1987 ck market crash.

Evans, however, examined how well e Michigan survey was able to fore-st. His conclusion: The index "gives too many false signals to be consid-ed a reliable enough precursor of up-ming recessions." Since 1977, the in-x has fallen by more than 5% in seven ferent quarters. But an economic wnturn started or intensified after ly two of those seven periods. In other rds, the index forecast seven of the st two recessions.

"The oil shock added only about $3 a ek to the average household budget," ans points out. "That just isn't ough to affect spending." Moreover, Evans says a threat of war won't keep people out of shopping malls. "It's awful to look at it this way, but in the short run, war is a plus for the economy," Evans says—because it boosts government spending, jobs, and income growth.

One sign that consumers haven't yet thrown in the towel came from the August data on car sales. New cars sold at a 9.4 million annual rate last month, not much different from July's 9.7 million. If other spending numbers perform as respectably as car sales did, consumer behavior during the gulf crisis could validate the notion that "when the going gets tough, the tough go shopping."

OVERSEAS ORDERS ARE KEEPING FACTORY WHEELS TURNING

Exports continue to spur the otherwise lethargic factory sector. Foreign shipments of manufactured goods have grown by nearly 8% over the past year, after adjusting for price changes. That's far faster than the 2.4% gain for all factory shipments.

With foreign markets so vital, many exporting companies could take heart from the Conference Board's latest readings on future growth around the world. Most important, the board's index of leading indicators suggests that economic growth will pick up in Europe, which has become the biggest market for U. S. goods in recent years. The indicators in West Germany and France, in particular, are signaling strong growth ahead.

Elsewhere around the globe, economic gains may start to slow. Japan is still showing robust growth, but the board reports that leading indicators for Canada, Taiwan, and Korea have weakened considerably in the past three months.

All totaled, indicators for the 10 major industrial countries besides the U. S. suggest that their combined growth rate will be somewhat faster than the 1% to 2% projected for the U. S. That means world demand should be strong enough to support American manufacturers at a time when domestic spending is expected to wind down.

AEROSPACE AND RETAIL WORKERS ARE GETTING THE AX . . .

Pink slips are every worker's nightmare. And the latest issue of *Workplace Trends* newsletter reports that aerospace and retail employees got more than their fair share of layoff notices in the second quarter. Editor Dan Lacey says that these two industries—which employ 18.6% of all nonfarm workers—accounted for half of the nearly 88,000 jobs that American companies announced would be permanently eliminated from their payrolls last quarter. The problems in retail and aerospace reflected expected defense cutbacks and the growing overcapacity of stores.

"The recent cutting spree has been more traumatic" than layoffs posted in the 1980s, says Lacey, because it is hitting middle management and other white-collar workers who "have great company loyalty and who thought they were uncuttable."

In the first half of 1990, corporate staff cutbacks were running at a monthly rate of 30,000, up dramatically from the 10,000 pace for all of 1989. This downsizing is reflected in the unemployment rate, which has inched up to 5.6% in August, from 5.3% earlier in the year.

And Lacey warns that this quarter could produce another large flurry of pink slips. He explains that companies often initiate cuts in the third quarter in order to record the savings in wages during the current year and to avoid "the controversy that accompanies staff cuts close to the holiday season."

. . . AND IT'S LOOKING ROUGHER OUT THERE ON THE PAVEMENT

If the employment picture looks bleak this quarter, the latest news on hiring plans compiled by Manpower Inc., the temporary-help organization, shows that the fourth quarter doesn't hold much promise, either.

In a survey of 15,000 companies, Manpower found that 23% of all industries expect to hire more workers, while 11% project a reduction in jobs in the fourth quarter. These readings indicate that demand for labor is at its weakest since the 1981-82 recession. Hiring will be particularly sluggish in the construction and finance sectors. And workers in the Northeast will find job hunting especially frustrating.

Retail and wholesale trade will have the most jobs to fill, reflecting the usual increase in demand for store clerks during the holiday season. But Manpower cautions that the hiring plans for retailers are much weaker than during previous Christmas shopping seasons. Meanwhile, health care providers—who have already added more than half a million employees to their payroll lists over the past year—also hope to hire workers at a fairly brisk pace at yearend. ▣

INSPIRATION

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NAVIGATING IN THE TURBULENT WATERS OF TODAY'S INFORMATION TECHNOLOGY

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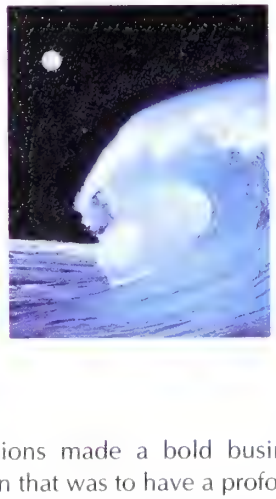
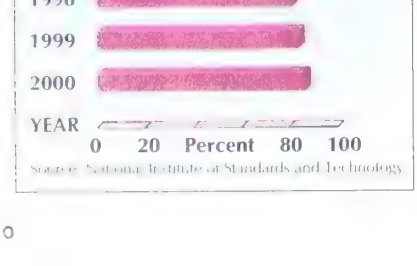


Some organizations profit from implementing new information technologies, others do not. The reasons for success or failure might appear at first glance to be as diverse as the companies themselves. But closer examination reveals common denominators shared by many of the successful firms.

Boeing, Bechtel, Hughes Aircraft—all at the technological forefront of their industries. Not surprisingly, each maintains and is supported by an information-technology (IT) infrastructure—computers, software, databases, peripherals, and communications and network facilities—that is second to none in the sea of competitors.

Several years ago, each of these organizations made a bold business decision that was to have a profound impact on their future IT operations. By switching over to a new set of standards for connecting computers, each got a head start in applying new information technology—giving them a sustained edge over competitors.

FIGURE 1



FAILURE TO COMMUNICATE

In the early 1980s, businesses, governments, educational institutions, and other organizations throughout the world began experiencing major problems because their information systems could not communicate with one another. They were, in fact, becoming technologically roadblocked by differences in vendors' incompatible communications schemes, or architectures.

Top information managers decided to take the offensive. They committed to actively pursuing international standards to enable connection of diverse information resources. The result of their quest is known as the Open Systems Interconnection (OSI) standards, which define, among other things, a set of communications formats, or protocols. Today, several years after the standards emerged, these organizations have begun to realize the benefits of their commitment, achieving new IT efficiencies and capabilities that were not possible before.

"It is beginning to pay off for those who had the insight to make a commitment early on," says Lincoln D. Faurer, president and chief executive officer of the Corporation for Open Systems International (COS), based in McLean, Va. "These organizations and many others, are now discovering that migration to OSI offers the best strategy for addressing their system incompatibility."

Founded in 1986, COS is a research and development consortium comprising more than 60 of the world's leading computer and communications vendors and large commercial and industrial users of networking systems. User members include major manufacturing, energy, financial and engineering companies as well as various governmental agencies. COS enables leading-edge users of computer and communications products to directly access and influence the major manufacturers, service providers, and suppliers of these products.

NEW CAPABILITIES, EFFICIENCIES

What business benefits can be derived through information systems' standardization? It depends to a large extent on what type of business you're in, but organizations that are now migrating to OSI are finding many. For example:

- Improved computer communications have enabled Bechtel to more than double the number of engineering and construction projects it manages, without a proportional increase in support overhead. Bechtel's top technical expertise can now be shared among many different, ongoing projects around the globe because its comunications infrastructure permits design specifications a

technical graphics to be instantly transmitted for review, comment, and analysis.

- Adopting standards has enabled Hughes Aircraft to share data among different vendors' CAD/CAM (computer-aided design and manufacturing) systems. Data run on one system used to have to be manually reinput to make it accessible to engineers using different hardware or software. Projects can now be worked on simultaneously by different teams.

- Application of one OSI protocol, a standard called X.400, now enables NASA employees at any of 17 administrative and research centers around the country to exchange electronic mail with anyone at any other center. Because the centers use different vendors' electronic mail systems, this was not possible before.

GOVERNMENT-WIDE OSI

The cost of incompatibility balloons when it comes to the U.S. government, which maintains and operates the world's largest information-technology infrastructure.

According to the National Institute of Standards and Technology (NIST), which monitors information-technology trends for the U.S. government's extensive IT operations, there are about 4,000 mainframe computers throughout the government's inventory.

Tweaking the different vendors' systems to make them communicate, so that users can share data, applications, and other IT resources, requires

COS BLAZES THE TRAIL TO OPEN SYSTEMS

Since 1979—the campaign for open systems has raged mainly on the technical front. Computer scientists and communications experts around the world labored for years to produce the prototypical standards, and organizations such as the Corporation for Open Systems International (COS) took on the task of convincing a skeptical industry that the standards offered a way out of the existing chaos. The campaign has since progressed, however, to vendors' development labs and production lines, to government and private test centers, and to the marketplace.

For years, COS focused on addressing the technical issues and controversies that this new, unproven set of international computer and communication standards would predictably generate. Indeed, it won over vendors and instilled in users the expectations of better systems solutions. With that accomplished, however, the time had come for change at COS.

The consortium is now busily preparing for market development and implementation of open systems. The long-term goal remains the same: to accelerate the delivery of open systems products that comply with the standards, that do in fact interoperate, and that provide the solutions users need. But COS strategists reasoned that some course corrections and new tactics were needed, due to the changing open systems landscape.

COS is preparing to play many roles and assume major new responsibilities in the years ahead—as negotiator, product-testing authority, and as both a clearinghouse and forum for the exchange of open systems information and ideas. COS has become the catalyst for ensuring that users' needs for products are met and, in turn, that there is a market sufficient to allay vendors' concerns about production and marketing economics.

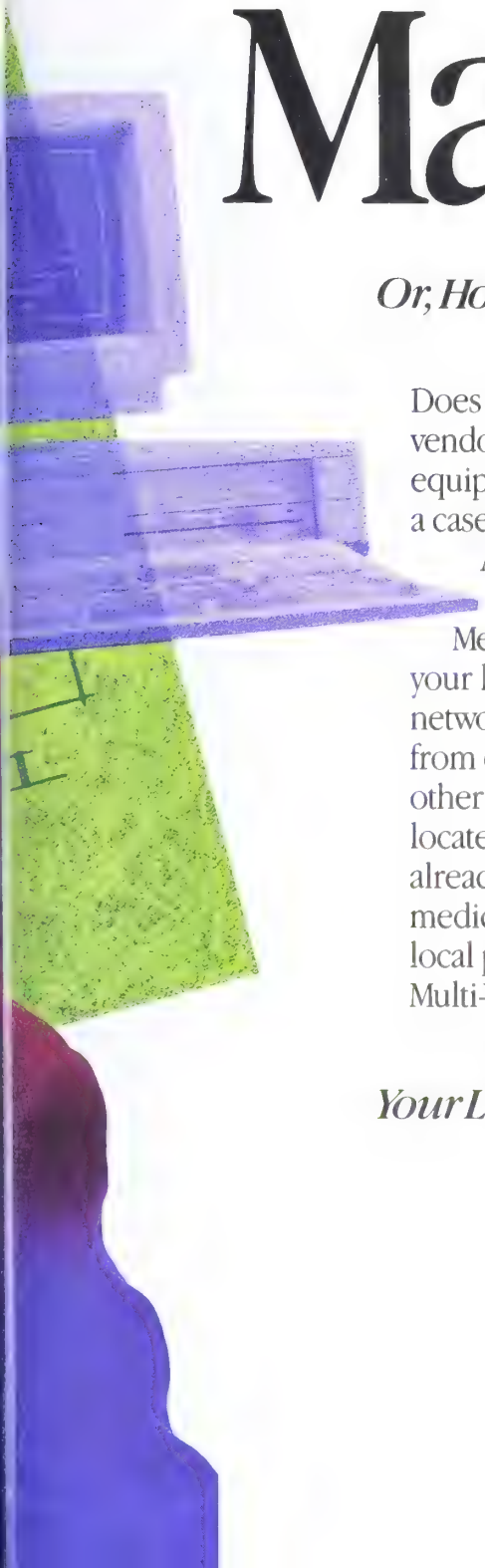
As more and more user organizations join COS, such as the influential MAP/TOP Users Group did recently, COS grows stronger and more influential as the forum of choice for expression of user requirements. And with the many prominent vendors that are already COS members, the organization is uniquely situated to mate vendors' open-systems products and design strategies with users' open-systems requirements and purchasing budgets.

What's more, COS' product-testing expertise will likely result in a primary role for the group in certifying product compliance with the government's GOSIP (Government Open Systems Interconnection Profile) program. COS may even undertake the operation and management of OSInet, the testing facility developed by the National Institute of Standards and Technology to determine whether different vendors' open-systems products are interoperational. COS is thus on its way to becoming the definitive open systems testing authority—and not just for computer communications. Plans are also underway to test Integrated Services Digital Network (ISDN) telecommunications products.

As the new market for standards-based systems blossoms in North America, the need for an impartial and technically proficient organization to serve as a focal point becomes paramount. And COS—uniquely qualified to handle the task—stands at the ready.

PCs

Multi-Vendor Madness



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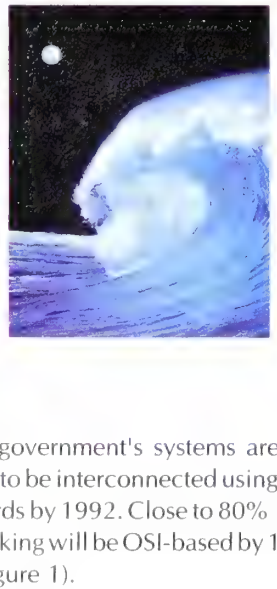


"from three to five staff members per year, per machine," says James H. Burrows, director of NIST's National Computer Systems Laboratory. The cost of incompatibility to the government? On the order of 10,000 to 20,000 staff personnel. The bottom line: $1 billion to $2 billion annually, about half of which could be saved by adopting a common communications architecture, according to Burrows.

In 1985, a major government study by the National Research Council concluded that OSI provided all the capabilities the government needed. Shortly thereafter, the government committed to OSI, and the GOSIP (Government Open Systems Interconnection Profile) program was born.

According to NIST, about 20 percent of the government's systems are expected to be interconnected using OSI standards by 1992. Close to 80% of IT networking will be OSI-based by 1997 (see Figure 1).

Burrows says that NIST is now finalizing procedures for testing commercial computer and software products to ensure they comply with GOSIP specifications. "Testing will be critical for the parts of GOSIP that we've already defined," says Burrows. "The work being done by COS is essential."

COS has already developed much of the complex computer- and software-intensive apparatus for testing product compliance with the OSI protocols, which are the basis for GOSIP. In fact, COS inaugurated the first OSI-product conformance testing in the United States more than a year ago (Products that pass the tests receive the now familar COS Mark, which indicates OSI compliance and provides a high degree of compatibility assurance.) According to Burrows, COS will actually be conducting a large portion of the testing to confirm product compliance with GOSIP.

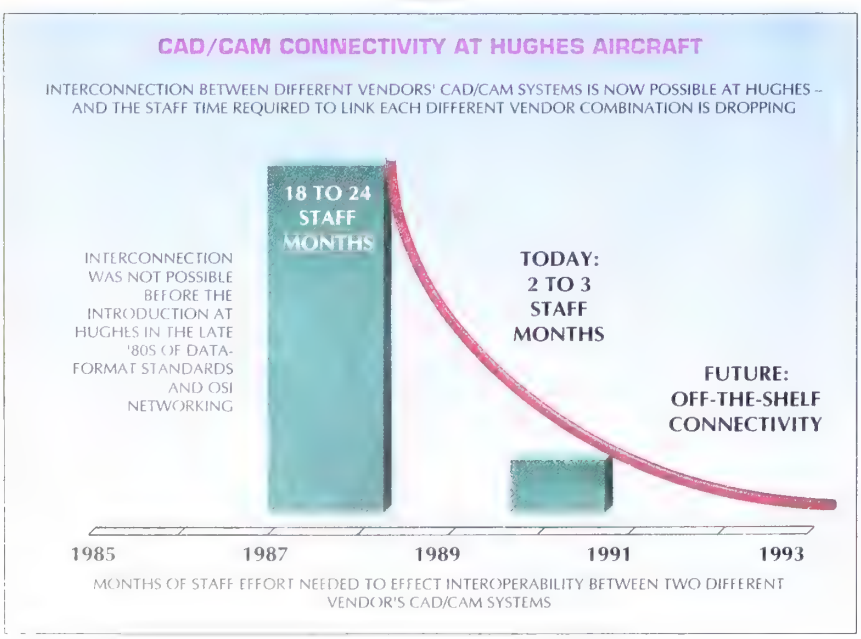
DEFENSE ON THE OFFENSE

Shifting the government's information-technology infrastructure to a common set of computer protocols, software interfaces, and data-network formats comes in the face of massive administration budget cuts. Indeed, the defense establishment, targeted for particularly heft cutbacks, is counting on standardization within its computer-network infrastructure as one way to achieve major savings.

"It's like any other business, except the DoD [Department of Defense] runs its business at roughly 50% overhead," says Lt. Cmdr. Kevin C. Eberle (USN), a representative of the new Defense Communications Agency Center for Standards. "The cuts are going to come out of that overhead," he says. "We have to do our business better, which means less duplication—and more interoperability between systems."

Few doubt that the Defense Department's move to OSI is anything but an all-out assault. In fact, as of August 15, all bids for new computer and data network systems made to the Defense Department—or any agency

FIGURE 2



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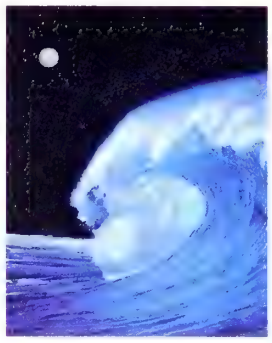


of the government—must comply with OSI standards.

"It is starting a snowball effect," Ebel says, the result being lower prices to the government, more products, and more capability. "At the top level, the commitment is very, very strong. The people who hold the purse strings are committed, and that's the important part," says Ebel, adding: "The word is getting out to industry: "Make these products—and we'll buy them."

THE COST OF INCOMPATIBILITY TO THE GOVERNMENT? ON THE ORDER OF 10,000 TO 20,000 STAFF PERSONNEL

"We had to have interoperating systems worldwide," says O. Ray Pardo, chief telecommunications engineer with Bechtel, an international engineering and construction company. Bechtel's decision to pursue a company-wide IT strategy based on international standards was made several years ago, Pardo says. The firm developed "a phased migration plan," he says, wherein different sectors of the company's operations would be converted to an OSI-based, open protocol environment over a period of years.

The cost of incompatibility is often a hard thing to measure. How do you put a dollar value, for example, on new technological capabilities made possible by moving to an ope standards network? This is a questi that surfaced at Hughes Aircraft, whi pioneered the adoption of standar to enable interoperation of otherw incompatible computer-aided desi and manufacturing (CAD/CA systems.

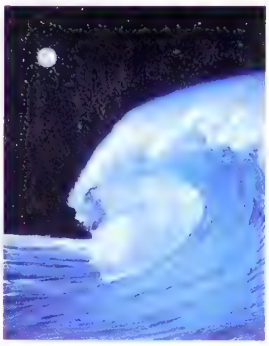
"In the area of CAD/CAM, we ha two dozen different software platfor and a dozen different hardware pl forms," says Jim Woods, staff vi president of communications and da processing at Hughes. "That's nea 240 possible combinations of ha ware and software," he adds.

Then, several years ago, the compa began employing new standards exchange of engineering and grap ics design data. With a common da format, and an underlying netwo structure based on the OSI protoco the data could be moved electro cally among different systems a software, and accessed by engine ing groups at various locations.

When Hughes began applying t new data-format standards, it still to some tweaking to make the differe engineering and design systems fu interoperational. But that has taper off over the last few years, from nea two years of staff effort per connect ity combination, to 2-3 months toda says Woods (see Figure 2).

"We can do things now that v couldn't do before," says Wood "There is always going to be sor cost, but it is a lot better than t alternative, which is not being able do it at all."

COS



GETTING THERE FROM HERE

Until a few years ago, the promise of an open set of international standards to enable off-the-shelf interoperation of different vendors' information systems was just that–a promise. But a lot has happened in the last few years to give user organizations access to many of the benefits of OSI.

In recognition of the demand for—and obvious marketability of—OSI, virtually all major vendors of computers, networks, and information systems have committed to delivering OSI-based hardware and software compatibility. A significant number already offer such products, and systems from many others are now undergoing conformance and interoperability testing.

DOZENS OF VENDORS' SYSTEMS CAN NOW BE LINKED TO SOME DEGREE VIA OSI PRODUCTS

AT&T's UNIX® System V is increasingly being tapped as the foundation for building OSI-compliant systems. This is not only because UNIX is one of the most popular computer operating systems in use today, but also because of its inherent ability to simultaneously support different applications and transport environments.

"For the next 10 years, you need an architecture that supports OSI as well as other, proprietary architectures—and UNIX does that," says Joel Applebaum, vice president of Open Solutions Software at AT&T's UNIX Systems Laboratories. He expects that, while OSI will be just one of several computing environments in the short-term, it will eventually emerge as the predominant one. "When you start combining applications including standardized network management, the benefits of OSI accrue," says Applebaum. "There's a synergy that occurs due to the standardized transport that OSI offers."

"From a product point of view, we view OSI, and in particular GOSIP, as fundamental to our government market initiatives," says Tim Sullivan, vice president of data networking with Northern Telecom Inc. Northern Telecom, a leading manufacturer of digital switching systems—data-oriented packet switches and telecommunications switches for businesses and telephone companies—views OSI as an essential ingredient in the evolution of both product lines.

"You cannot efficiently deal with a multi-vendor environment, which is the state of things today—especially on a global basis—without the connectivity that OSI provides," notes Sullivan.

As with any new technology, product costs begin to drop as more and more vendors incorporate the technology in their products. That phenomenon is already occurring with OSI. In fact, dozens of vendors' systems can now be linked to some degree via OSI products.

And COS is continually improving its extensive OSI product-testing expertise. Besides its COS Mark testing of product compliance with OSI specifications, COS sponsors workshops and labs in which vendors undertake product interoperability testing with one another's products.

COS' product testing incorporates, and integrates, the latest test platforms produced by several leading-edge manufacturers around the globe that are specializing in this new but quickly growing vertical market. One such firm is IDACOM Electronics Ltd. of Edmonton, Alberta, which produces testers used by COS to measure products' conformance for several of the key OSI protocols—and which was recently acquired by Hewlett-Packard (Canada) Ltd.

"Interoperability is everybody's business," says Bechtel's Pardo, who encourages users to become actively involved in organizations such as COS as well as to take part in the standards organizations that address OSI implementation, migration, and management. "OSI," he says, "is going to have a profound and positive effect on our world, and U.S. industry's ability to perform in the world." Δ

This special section was written by Ed Mier, president and founder of Mier Communications Inc. He specializes in computer communications and networking subjects. Chart illustrations by Stanislaw Fernandes. Photography by ©TSW/Paul Berger. Graphic design by Platinum Design, Inc.

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BYTE

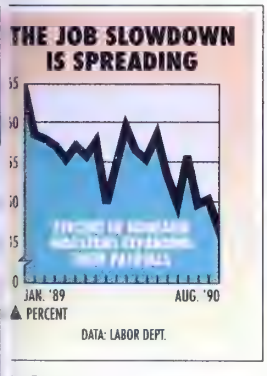
SEPTEMBER 24, 1990

BY JAMES C. COOPER AND KATHLEEN MADIGAN

THE ECONOMY IS SO NUMB, IT HAS HARDLY FELT THE OIL SHOCK—YET

It's still hard to find evidence that Iraq has scored any direct hit on the U. S. economy. The data are just beginning to cover the period following Saddam Hussein's takeover of Kuwait on Aug. 2, but their message hasn't changed much. They say the economy is weak—and the oil shock will help keep it that way.

So far, the only impact of the Persian Gulf crisis has been psychological. It has bred a lot of pessimism—maybe too much. Consumer confidence nose-dived in August, but car buying didn't, and retailers didn't see any sudden drop-off in sales. Businesses have also registered more caution, but not enough to slash capital budgets in any big way. And even though the situation in the Middle East has changed little in recent weeks, the financial markets still react wildly to the slightest rumor.



All the uncertainty has created a policy gridlock that is doing the economy more harm than good. Budget negotiators have been straining to come up with a watered-down package of cuts in the 1991 deficit. And the Federal Reserve Board seems to be at the mercy of the bond market. As long as oil prices continue to whipsaw long-term interest rates, the Fed cannot ease monetary policy for fear that it will fuel the market's inflation worries, which could push long rates still higher. The longer the Fed waits before easing, though, the greater the chance that the move will come too late to forestall a recession.

HIGH OIL BILLS WILL SLICE SPENDING

Firmer evidence of the oil shock's toll on the economy will come soon: On Sept. 14, Washington will make its August report on the producer price index. The consumer price index is set for Sept. 18. Aside from these initial price jolts, the impact is likely to come gradually as America's bigger bill for foreign oil cuts into incomes and spending on other items by consumers and businesses. Consumers have already shelled out more for gasoline this summer, and they will have to dig even deeper this winter to cover their heating bills.

But even in the absence of any future impact of higher oil prices, the economy faces plenty of other concerns in the here and now, especially in the labor markets. In August, fewer industries expanded their payrolls than in any month since the last recession (chart). Private job growth has fallen to its slowest annual pace in seven years. Unemployment is rising, and it will go higher.

Although the August employment report contains post-crisis data, the numbers were gathered during the week of Aug. 12—only about two weeks after the invasion. That's hardly enough time for any impact to show up. What the report did say, however, was that the economy's pre-crisis problems were getting worse.

Ignoring the hiring and firing of 1990 census workers, job growth among private industries, excluding government, ground to a halt in July and August. Even so, the bond market reacted badly to the August report, because the Labor Dept. revised overall July jobs up sharply. Most of that adjustment occurred in state and local government, however, and even there, growing problems with state budgets will force future cutbacks.

The ongoing trend of job losses in goods-producing industries has accelerated in recent months (chart). In August, manufacturers cut 45,000 jobs, construction companies handed out 40,000 pink slips, and mining laid off 7,000. Since reaching its peak in January, 1989, employment in manufacturing has declined by 456,000.

The service sector hasn't escaped the slowdown. Employment in retail and wholesale trade, directly dependent on goods, has slowed sharply. In August, retail jobs fell by 16,000. Over the past year, jobs in business services have grown only 2.1%, down from 4.8% in the previous year and 8.8% in the year before that. Job growth in finance continued to slacken.

Health services are the only bright spot in an otherwise dim job picture. During the past year, the health care industry has generated 31% of all new private-sector service jobs, and health services contribute only 12% of private service employment. Without that boost, the job slowdown in services would be even steeper.

FEWER WORKERS CHASE FEWER JOBS

Job growth isn't likely to pick up anytime soon, because the outlook for consumer and business spending is so poor. That means a further rise in the unemployment rate. Joblessness rose to 5.6% of the work force in August, up from 5.5% in July and 5.2% in June.

The jobless rate would have jumped higher already if not for the unusual slowdown in the expansion of the labor force. Although job growth has fallen off during the past year, so has the pace of the work force. The

labor force fell unexplainably for the third consecutive month in August. When the true trend is restored, the jobless rate might shoot up, as more job seekers enter the labor force and have a hard time finding work.

The number of unemployed workers rose sharply in July and August, and there are other telltale signs of erosion in the labor markets. An increasing percentage of the newly unemployed lost their last job—they didn't quit voluntarily. And the number of jobless that have been out of work for 15 weeks or more has begun to rise. That means it's taking longer to find a job.

All this means that wage growth is likely to slow in coming months, helping to offset the inflationary impact of higher oil prices. Wages rose a mere 0.2% in August, and they are up 4% from a year ago. That pace has been virtually unchanged during the past year—and it has not been sufficient to keep up with inflation.

THE DEBT LOAD GETS HARDER TO TOTE

So it's not surprising that consumers are getting an empty feeling—mainly in the wallet. And with jobs and incomes slowing down, even before the gulf crisis, the heavy burden of debt that consumers have been carting around becomes harder to pull.

In July, consumers took on $4.5 billion more in installment debt than they paid off—the largest monthly increase in a year and a half. Over the past year, however, households have scaled back their total use of credit. Most of the cutback is in auto credit, down for four consecutive months. The July drop was $534 million.

Revolving credit is still growing strongly, though. It rose $3.8 billion in July, on top of a $1.2 billion advance in June. The steady increase in this debt—mostly credit cards—is typically a signal that households are borrowing heavily to buy goods. But that doesn't seem to be the case now. Revolving credit is up 13.9% over the past year, while nonauto retail sales have risen a mere 4.6%.

Interest charges may be adding to consumers' problems. With revolving credit outstanding at $212.1 billi in July, perhaps as much as $1.9 billion in interest being tacked on to credit-card balances each month. Th means households must devote more of their income paying off past IOUs and less to current spending.

CAPITAL OUTLAYS: SLIMMING DOWN

Many companies are also feeling t strain on their capital budgets. The Co merce Dept.'s latest survey of compani plans to invest in new plants and equ ment showed that they were already scaling back befo the oil shock. Commerce received 70% of the respons before Aug. 2. The survey shows a second consecuti trimming of spending plans for 1990 (chart).

Businesses now project an crease of only 5.4% over 198 when outlays rose by 11.4 That's down from 6.8% in t second-quarter survey, whi was down from 8.1% in t first-quarter reading. In fa adjusted for inflation, re spending in the second half 1990 is now slated to be no hig er than it was in the first ha But given the uncertainty in t Middle East, further cuts seem likely.

Indeed, poor profits and rising costs are eating in companies' ability to generate funds for capital projec During the past four quarters, the gap between corp rate cash flow and investment in plants, equipment, a inventories averaged $130 billion. In the past, a financi gap that large has usually been followed by an outrig decline in capital spending.

But that was before Iraqi tanks rolled into Kuwa Even if the 1990 oil shock hadn't happened, the econon would be facing some tough times. Now, they're likely be even tougher.

THE WEEK AHEAD

BUSINESS INVENTORIES

Monday, Sept. 17, 10 a.m.
Factory, wholesale, and retail inventories likely increased by about 0.3% in July, according to economists surveyed by MMS International, a division of McGraw-Hill Inc. The gain follows a 0.4% decline in June and is suggested by the 0.7% increase in July factory stockpiles already reported. Business sales likely fell 0.5% in July, after rising 1% in June. Declines in factory and wholesale shipments offset a gain in retail sales.

CONSUMER PRICE INDEX

Tuesday, Sept. 18, 8:30 a.m.
Consumer prices probably jumped by about 0.9% in August, reflecting the steep rise in retail gasoline prices after the Iraqi invasion of Kuwait. Prices in July had advanced 0.4%. Despite the attention paid to gasoline costs, price hikes of other items are also expected to be fairly large. The MMS consensus calls for a 0.4% gain in consumer prices excluding food and energy, on top of a 0.6% gain in July. That means this core rate of inflation would remain at its rapid 5% annual rate of growth. The fastest pace continues to be in service inflation, now running at nearly 6% annually.

MERCHANDISE TRADE DEFICIT

Tuesday, Sept. 18, 8:30 a.m.
The foreign trade deficit is projected to widen sharply to about $7.3 billion in July, after posting a seven-year low of $5.1 billion in June. The MMS survey ca for a 1.7% decline in exports, following 4.6% gain. And imports are expected rise by 2.8% in July, reversing their 2.9 drop in June.

HOUSING STARTS

Wednesday, Sept. 19, 8:30 a.m.
Housing starts are expected to come at a pitiful 1.12 million annual rate August. That would be lower than t 1.15 million pace of July, which w homebuilding's poorest showing sin the 1981-82 recession. With long-term terest rates rising in response to t Middle East situation and with the spe ter of recession scaring many consu ers, the housing sector probably has n touched bottom yet.

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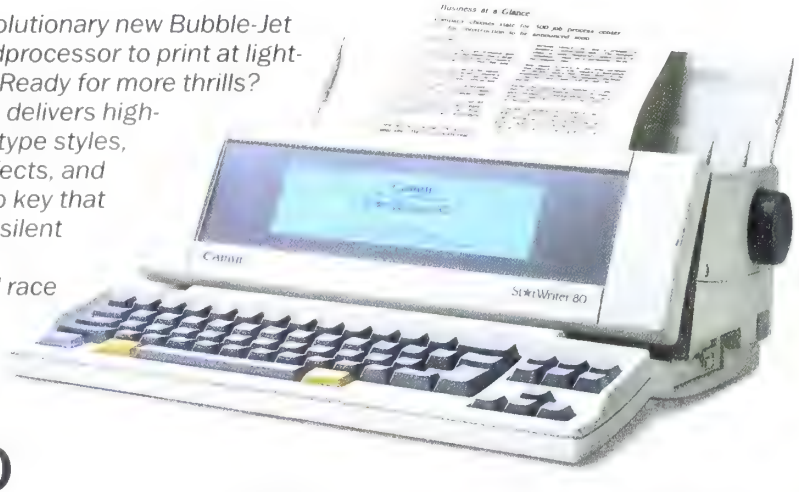

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■ ADDRESSING CONGRESS: THE "NEW PARTNERSHIP" LAUDED BY BUSH IS A LONG WAY FROM A U.S.-SOVIET ALLIANCE OR ECONOMIC MARRIAG

■ THE IRAQ CRISIS

LOFTY WORDS, HEFTY WOES

BIG PROBLEMS AT HOME STILL PLAGUE BOTH BUSH AND GORBACHEV

They made an impressive pair, sitting before the cameras in Helsinki's Finlandia Hall. Mikhail Gorbachev, stolid but flashing an occasional enigmatic smile. George Bush, full of nervous energy, grinning his manic grin.

The two leaders wrapped up their hastily arranged Sept. 9 summit aglow with proclamations of a "new world order." But though the summit succeeded on its own narrow terms—it produced a strong joint call for Iraqi withdrawal from Kuwait—what Bush calls the "new partnership" between Washington and Moscow may take years to evolve into the stable political and economic entente that the two leaders envision.

Here's why: Although Gorbachev's are far more threatening, both leaders face enormous problems back home (table). And even though Gorbachev's pressing need for hard currency and Western commercial links is bound to gradually expand U. S.-Soviet trade and investment, the leaders are still a long way from the full flowering of the U. S.-Soviet alliance that Helsinki promises.

Moreover, even as Bush celebrated the post-cold-war world in a Sept. 11 speech before Congress, that world was getting messier: The first serious crack appeared in the international embargo of Iraq when Iran hinted it might supply Baghdad with food, medicine, and, most seriously, a possible outlet for its oil. While American officials discounted the importance of Tehran's threats, Ayatollah Ali Khamenei warned of a holy w against Western interlopers.

In Europe, allies are increasingly w ried that the U. S., with more th 100,000 troops in the gulf region, is eager for combat. And in Washingt Congress is growing testy with natio that, in the opinion of lawmakers, are paying their fair share of the cost Operation Desert Shield. "The task n is to keep the coalition from atrop ing," says Gregory Flynn of the Car gie Endowment for International Pea

LIMITED OPTIONS. But while Bush face daunting task keeping the anti-Iraq a ance intact, he must also deal with ma challenges at home. The U. S. econo is tottering on the edge of recession a at best, is in for a period of stagnat that will limit the Administration's pol

options and sap its political strength. Despite major progress toward a budget deal with Congress, the Administration faces the difficult job of working out the details with Capitol Hill.

Perhaps more troublesome for Bush is the growing impatience on the Hill with Administration efforts to spread the $15 billion-a-year cost of Desert Shield to reluctant non-Arab allies. "The least the Japanese and Germans can do is support us—and not just with words," says House Majority Leader Richard A. Gephardt (D-Mo.). On Sept. 12, the House voted 370-53 to withdraw U.S. forces from Japan if Tokyo doesn't foot the bill for their presence.

100-DAY PLAN. But Bush's troubles pale beside Gorbachev's. Two days after the Helsinki summit, Gorbachev abandoned hopes for gradual economic liberalization and plunged into the icy waters of free-market economics. The Soviet Union now looks committed to ending 70 years of communism by moving to a market system within 500 days. Experts expect the economy will undergo wrenching dislocations this winter. Unemployment is likely to soar and living standards to plunge. Meanwhile, threatened labor unrest could bring the economy to a halt, and shortages of heating fuel and electricity are now a distinct possibility. Those hardships figure to egg on the restive Soviet republics against the authority of Moscow.

The growing conflict between the 15 Soviet republics and the central government of Moscow works against its quest to become a full player in the global economy. "What kind of partners are we taking on here?" asks Helmut Sonnenfeldt of the Brookings Institution. "Can they still sign trade agreements, pass arms control treaties, and vote in the U.N. Security Council?" While Bush's embrace of Gorbachev has won him bipartisan accolades at home, the Soviet leader hasn't gotten any domestic payoff. Soviet consumers are too frantic about finding scarce loaves of bread to care much what role their nation plays in the Persian Gulf. And Gorbachev faces growing unease among his own military about a massive U.S. troop presence just 700 miles from the Soviet Union's southern flank.

Some in Moscow speculate that if the economic crisis erupts into violence, military officers may plot against Gorbachev. "Some people will say, 'Let's have the military play a greater role,'" says Georgi Arbatov, director of the Soviet Institute of the U.S.A. and Canada. "I don't think a military coup would work, but some generals talk in such a way that you become uneasy."

With such talk rife in Moscow, it's little wonder that Gorbachev was anxious to grasp even vague offers of U.S. assistance in Helsinki. The best immediate prospect for help comes from rising oil prices. The Soviets are the world's largest producer, but antiquated technology prevents them from cashing in on the gusher. That's why Gorbachev is meeting in Moscow with Commerce Secretary Robert A. Mosbacher and the heads of 15 large American companies eager to invest in the Soviet economy. Chevron, Texaco, and other U.S. energy giants are already exploring joint production ventures. "Russia has the potential for more oil revenues than all of the countries of the Persian Gulf put together," says Chesley Pruet, president of Pruet Oil Co. of El Dorado, Ark. Mosbacher told BUSINESS WEEK he expects U.S.-Soviet trade to double, to $6 billion, in the next two years.

COMMERCIAL WEB. Elsewhere, the prospects for a closer economic relationship are improving. Early this fall, the Soviet Parliament is expected to pass a law guaranteeing the right to emigrate for all Soviet citizens. That will free Bush to waive U.S. restrictions on special trade privileges for the Soviets. The U.S. and the Soviet Union are also close to reaching a settlement of outstanding debt claims dating back to 1918. The deal will allow the Soviets to borrow in the U.S.

If Gorbachev can hang in, there's no question that the U.S. and the Soviet Union will knit a close web of commercial ties. But before that can happen, both Bush and Gorbachev must weather some tough domestic times. Buddies they may be. But the pair have a long way to go before they can be truly called partners—and before the rhetoric of a "new world order" can become more than a summiteer's boast.

By Douglas Harbrecht and Amy Borrus in Washington and Rose Brady in Helsinki and Moscow

■ **HELSINKI LOVE-IN: GORBY WAS EAGER TO GRASP EVEN VAGUE OFFERS OF U.S. AID**

A NEW ORDER OF TROUBLE

The Helsinki summit gave George Bush and Mikhail Gorbachev a chance to dominate the world stage. But beneath the booming talk of a "new world order," serious domestic problems bedevil both leaders

THE PITFALLS FOR BUSH...

OPERATION DESERT SHIELD By promising an open-ended military commitment to the Persian Gulf, Bush risks the erosion of public support

RECESSION Reeling from the shock of $31-a-barrel oil, the U.S. economy is crawling. If a slump hits, Bush's freedom to maneuver will narrow

INFLATION Even without a recession, inflation is at a troublesome 5%, so the Federal Reserve can't lower interest rates enough to spur growth

...AND FOR GORBACHEV

POPULARITY The Soviet President's is at rock bottom. With food shortages looming, the Soviet public may soon lose patience with Gorby's pleas for more time to make *perestroika* work

ECONOMIC REFORM Gorbachev has signed on to a radical proposal to unshackle the centrally planned economy in 500 days. Ironically, either success or failure of the plan could spell the end of the Soviet leader's career

DISINTEGRATION Internal pressures continue to threaten the very existence of the Soviet state. Some 15 Soviet republics have called for autonomy, ethnic rivalries seethe, and the Soviet military may be growing restive

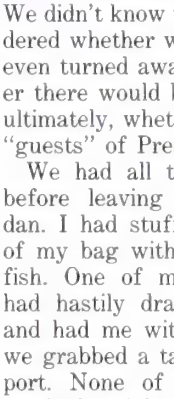
DATA: BW

MERRILL LYNCH/GAMMA LIAISON

THE IRAQ CRISIS

ENTERING THE ORWELLIAN WORLD OF A BESIEGED BAGHDAD

A Business Week reporter gets a surprising reception in Saddam's city



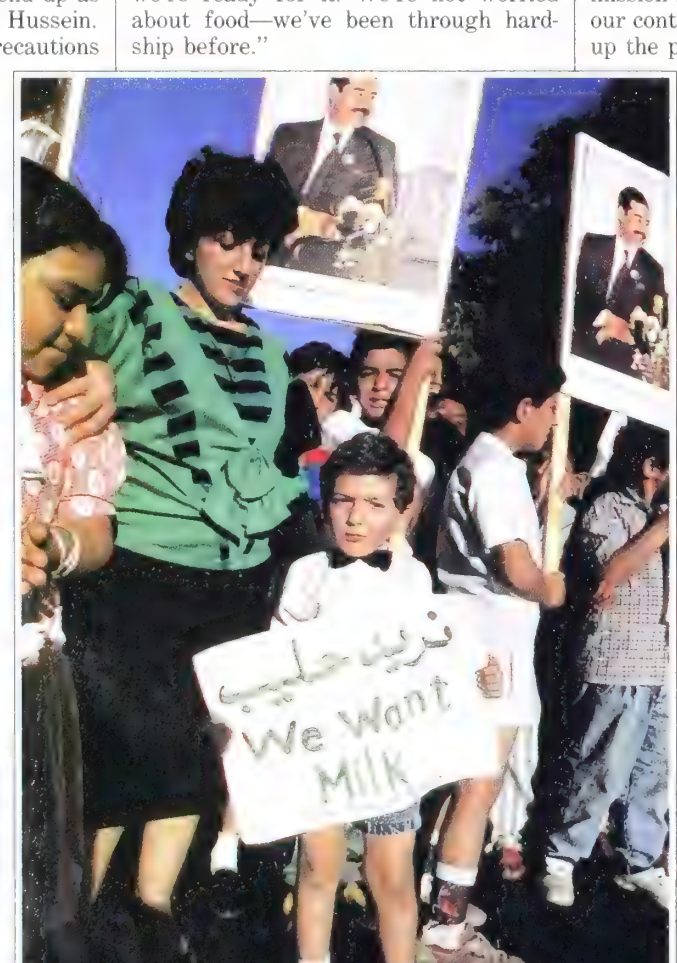
As our green-and-white Iraqi Airways Boeing 747 began its descent into Baghdad, I felt my stomach churning. The four other reporters on the plane looked nervous, too. We were all old Middle East hands, but we were in the first wave of Western print journalists to visit Iraq during the gulf crisis. We didn't know what to expect. We wondered whether we would be harassed or even turned away at the airport; whether there would be any food to eat; and, ultimately, whether we would end up as "guests" of President Saddam Hussein.

We had all taken ritual precautions before leaving Amman, Jordan. I had stuffed one pouch of my bag with cans of tuna fish. One of my companions had hastily drawn up a will and had me witness it before we grabbed a taxi for the airport. None of us had slept much the night before.

CROSSED SWORDS. Our reception at the handsome Saddam International Airport turned out to be a lot friendlier than we had expected. A smiling man from the Information Ministry shepherded our passports through controls. My belongings sailed through customs without even being opened. The Iraqis, it seemed, were turning on the charm.

As we headed for town, we couldn't help noticing the memorials to the war with Iran. One of these is an enormous pair of crossed swords. The fists that clench them were supposedly modeled on Saddam Hussein's. Another consists of the mangled remains of an Iraqi jet fighter—canopy, turbine, and all—resting on a concrete slab in memory of a pilot who crashed his plane into an Iranian jet when he ran out of ammunition.

But the mood in Baghdad isn't warlike yet. Nearly all the portraits of Saddam that dominate each major intersection and building depict him in a statesman's blue suit, not the green uniform of the commander-in-chief. People seem friendlier and less cowed than usual, despite the risks of being seen talking to foreigners. I sense that they see foreign journalists as a source of reliable information about Iraq's predicament. Strolling in the evening along the palm-lined banks of the Tigris River, I'm repeatedly invited by men in outdoor cafes to join them for tea and talk. The conversations are mostly alike: "We don't want war, but we're ready for it. We're not worried about food—we've been through hardship before."



PROTEST AT U.S. EMBASSY: ONLY SOME BASICS ARE RATIONED

The embargo is only beginning to bi While there are long breadlines a some essentials such as rice and so are being rationed, the shops still ha fruits and vegetables from a bump harvest. I had heard that chickens we in short supply, yet at a hole-in-the-w restaurant I dined sumptuously on b becued fowl, lentil soup, and fl bread—all for about $1.

Despite such pleasant surprise Baghdad has its Orwellian qualities. the phone, an Iraqi businessman apo getically declines my request for an terview. "We cannot do this without p mission from the authorities. It's beyo our control." Another, in his office, pic up the phone and asks someone perm sion to answer my questio It is not granted.

Foreign newspapers a banned, and the local Aral press and English-langua *Baghdad Observer* give the gime's distinctive view of t world: During my stay, t *Observer* reported that K waiti Foreign Minister Sab al Ahmed al Sabah had c tracted syphilis many tim that U. S. troops in Saudi A bia, where alcohol is banne had ordered beer from t Netherlands; and that Isra intelligence officers we meeting with their Americ counterparts at the big Sau base at Dhahran. In its mo outlandish touch, the pap started its dispatches fro Saudi Arabia with an "Oc pied Lands" dateline.

The Iraqis have let Weste reporters into the count partly to get across the Ira point of view and also prob bly because there is some sa ty in having such celebrities Dan Rather around. Still, ca era crews aren't allowed an where without a "minde from the Ministry of Cultu & Information, and satell feeds are censored.

I wasn't assigned a ha dler—in part because they

n short supply—so no one was hovering over my interviews. Not that anyone old me any state secrets or denounced Saddam. He seemed quite popular, in fact. That's probably because, despite his brutality, he's regarded as not personally greedy and head of one of the region's cleaner governments. "People think they know him, and they like what he stands for," says a longtime Western resident of Baghdad.

CARTOON HOUR. One day, some other reporters and I were summoned for a session with Information Minister Latif Nasaif Jasim. According to old Baghdad hands, Jasim used to come across as a thug. Now, he's a pussycat. He still wears a well-tailored uniform, but the pistol is gone, and when he places us in a semicircle on a couch, he says: "We're sitting here as friends."

His polished aide, Naji al Hadithi, doles out the official line. A gentle-looking man sporting designer glasses and socks decorated with elephants, Hadithi gives the impression that he secretly agrees that the words he is spouting are nonsense. There is no rationing, only "rationalization of consumption," he insists. "Even if we eat mud, we will not bow down." Another reporter and I can barely suppress our laughter when we notice that all the while Hadithi is keeping a sleepy eye on the cartoon show playing on a large color TV by his desk.

But when pressed about rationing, Hadithi suddenly boils over. "You ask very smart questions," he tells an American reporter. "I think you have another card." The implication—that the reporter might be a spy—is far from a laughing matter. Asked if we could visit Babylon, Hadithi cracks a bad joke: "Oh, you want to follow the Bazoft line." The reference is to Farhad Bazoft, a reporter for the London weekly *Observer*, whom the Iraqis charged with spying and hanged earlier this year.

The only scheduled flight in or out is Iraqi Airways' daily Amman run. To get a seat, you need to plunk down the $200 fare in cash because the Iraqis can't settle credit-card charges. The Ishtar Sheraton hotel, where reporters are required to stay, also requires hard currency, preferably dollars, at the official rate, and it gets as much as $250 a night.

For now, journalists seem safe, but no one knows how the Iraqis might act if war broke out. There's a strong feeling among foreigners that the Iraqis have already reached a point where they would do anything that seemed expedient—and worry later about justifying it. Waiting for a plane in Amman, I had seen foreigners literally jumping for joy when they got off a plane from Baghdad. When my own jet took off from the Iraqi capital, I felt like doing the same.

By Stanley Reed in Baghdad

THE IRAQ CRISIS

ADNAN KHASHOGGI: HE'S BACK

This time, he claims to be helping Saudi Arabia beef up defenses

For the longest time, Adnan Khashoggi was rolling nothing but snake eyes. After a spectacular multimillion-dollar bankruptcy in the U.S., the cherubic Saudi arms-dealer and international influence-peddler emerged as a middleman in the Iran-*contra* affair. His business dealings with former Philippines President Ferdinand Marcos earned him a spell in a Swiss jail—as well as a flashy trial in New York with co-defendant Imelda Marcos. He was acquitted on July 2.

Such troubles would spell the end of most business careers. But not, it seems, Khashoggi's. Now, he tells a BUSINESS WEEK reporter along for a ride above the Arabian Peninsula in a sleek BAC-111, he has big transactions cooking in both Saudi Arabia and the Soviet Union.

KHASHOGGI, A CO-DEFENDANT IN IMELDA MARCOS' TRIAL, WAS ACQUITTED IN JULY

Days after Iraq invaded Kuwait, Khashoggi made his first trip to his homeland in almost two years. There was little keeping him in the U.S. Most of his U.S. assets are tied up in Triad American Corp., a Salt Lake City company that's in liquidation following a 1987 bankruptcy filing. He's moving his operations back to Saudi Arabia, where he broke into the weapons trade. And he's sure his old clientele will remember him. "If you're a very good doctor and you go on vacation," Khashoggi says, "people are going to come back to you."

The Saudis could indeed come back to Dr. Dealgood. Over the past month, say sources close to the Saudi royal family, Khashoggi has met regularly with King Fahd and his powerful brother, Defense Minister Sultan. Saudi leaders, who spend $14 billion a year on arms, are rushing to beef up the country's defenses even more in the wake of Iraq's invasion of Kuwait.

ARMS SERVICES. That situation could be tailor-made for Khashoggi, whose client list once read like a who's who of the world's armorers: Lockheed, Northrop, and Hughes Aircraft in the U.S., Marconi in Britain, and Thomson CSF in France. But Khashoggi may not get his cut on military hardware deals, which will mostly be on a government-to-government basis. Instead, he's looking to make a pile on services, helping Riyadh arrange for training, equipment maintenance, and logistics. "We're going to be a lot more sophisticated now in weapons in Saudi Arabia, and that needs follow-on work," he says. "And I'm going to be involved with the big companies."

One of those may well be Lockheed, which cut its ties with Khashoggi about 10 years ago. Khashoggi claims he's negotiating a new joint venture with Lockheed for maintenance of the Saudi Air Force's 51 C-130 transport planes. Lockheed, which acknowledges it's talking to Khashoggi, says it already has a maintenance venture with the Saudis and doesn't see what Khashoggi has to add.

Lockheed is more interested in deals Khashoggi is brewing up with Soviet airline Aeroflot and Green Air, a fast-growing Turkish charter airline in which Aeroflot holds a 49% stake. Khashoggi is trying to sell the Soviets on the Lockheed L-1011 Tristar, which he claims suits Aeroflot's need for a long-range widebody. Just to test the waters, Khashoggi plans to purchase 10 planes from Saudi Arabian Airlines. Lockheed says it's interested in working out a refitting and service arrangement with both the Turks and the Soviets.

Eventually, figures Khashoggi, servicing the Soviet commercial fleet "will be a billion-dollar market." He even envisions opening an L-1011 production line in the Soviet Union. Lockheed doesn't share Khashoggi's enthusiasm for restarting L-1011 production, which ceased in 1985. But that's Adnan—he thinks big. This time around, some of his big plans might even pan out.

By John Rossant in Jiddah

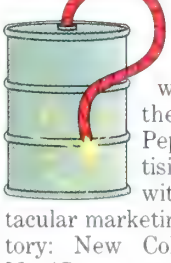
HAVIV/SABA

■ DESERT COOLER: COKE DONATED 20,000 CASES OF SODA TO U.S. TROOPS IN SAUDI ARABIA

■ THE IRAQ CRISIS

PUBLICITY? WHY, IT NEVER EVEN OCCURRED TO US

Companies are vying to donate products to the troops



Coca-Cola Co. isn't the world's most low-key marketer. For years, the soft-drink giant has waged a noisy battle of the stars with archrival Pepsi-Cola in its TV advertising. And it also came up with two of the most spectacular marketing blunders in recent history: New Coke and this summer's MagiCans promotion. So Coke-watchers scarcely noticed recently when the company began quietly promoting something else: Its donation of 20,000 cases of Coke to American troops in Saudi Arabia.

Over Labor Day weekend, refrigerated trucks filled with Coke made five trips under armed escort to base camps near the Kuwaiti border. A free-lance photographer and commercial film crew were on hand to record parched G. I.'s unloading the beverages. And Coke's public relations firm was there to peddle the pictures to the TV networks and major news magazines. The result: coverage of the gesture on Cable News Network and in *The Washington Post*. Still, the PR man handling Coke's effort isn't quite satisfied; *Time* and *Newsweek* didn't pick up the story. Says Steve Naru, a manager at Burson-Marsteller Inc: "I think the timing was off."

Welcome to the New World Order, Marketing Dept., where companies are using history-making events as occasions to promote their products (table). With U. S. troops digging in their heels in Saudi Arabia, companies all around the country are vying to supply them with everything from nonalcoholic beer to videocassettes. To be sure, they are motivated partly by good intentions: helping servicemen to survive the desert heat and long hours of inactivi

But if a soldier is going to be pho graphed sipping a cold drink or playi poker, most marketers agree that he she might as well be using their produ Joyce Julius & Associates, a marketi firm in Ann Arbor, Mich., calculates picture of a product on all three TV n work news programs is worth $250,(in paid media time—not to mention presumed halo effect of being associa with a widely supported national und taking. Evian Waters of France Inc. w loads of publicity when the networ showed soldiers swigging its product

That's why several American com nies are now clamoring to ship their b tled water to the front. The president Artesia Waters Inc., a San Antonio co pany, wrote to Senator Phil Gramm Tex.) in mid-August asking for help supplying the military with his hor grown libation. The company eventua shipped 5,670 gallons.

Artesia's move earned it articles in *San Antonio Light* and *USA Today*. M Maureen Niestroy, the company's m keting director, plays down any mark ing benefit: "We really just did this help the soldiers." Artesia and oth companies worry about being accused exploitation. Already, some critics crying foul: "They're taking advanta of a tragedy," says Mark Crispin Mill a professor of media studies at Joh Hopkins University. "They're using soldiers to glamorize their products."

A COUP. Anheuser-Busch Cos., which l week donated 22,000 cases of a nonal holic beer, says it told its PR firm to so pedal the announcement. "The only r son we went along with a press releas says Executive Vice-President Michae Roarty, "is to encourage other com nies to do the same." And Coke spok man Randy Donaldson insists the co pany isn't trying to get any milea either: "This was just giving aw $100,000 worth of Coke to the soldier

But Coke couldn't have missed Peps coup a few weeks earlier. American swimming instruc fleeing Kuwait was stopped an Iraqi soldier near the Sa border. After the American fered him a can of Diet Pepsi, grateful soldier waved h through, and the instructor w on to tell his story to NBC Ne *The Today Show*, and CN *Larry King Live*. NBC anch man Tom Brokaw signed off Aug. 8 newscast with the li "Tonight, the price of freedom Diet Pepsi." Such exposure, m marketers agree, is priceless.

By Mark Landler in New Yo with Seth Payne in Washington

DOING WELL BY DOING GOOD

Company	Gift	News coverage
COCA-COLA	20,000 free cases of Coke	Reports on Cable News Network and KCBS Los Angeles; article in *Washington Post*
ARTESIA WATERS	Shipping, cut rate on bottled water	Articles in *USA Today*, *San Antonio Light*, and other local newspapers
EVIAN	Offer of 5,000 cases of water to Red Cross	Articles in *USA Today* and local newspapers
CIRCUS CIRCUS	10,000 decks of playing cards	An article in the *Washington Post* and reports on local television newscast

DATA: BW, COMPANY REPORTS

THE JUDGE WHO COULD LOWER THE BOOM ON MILKEN

Kimba Wood has wide latitude to decide how much time he'll do—if any

When Michael R. Milken's name goes down in the history books, U. S. District Court Judge Kimba M. Wood will be a key footnote. On Oct. 1, Wood is expected to sentence Milken for crimes committed during the years he reigned over Wall Street from his X-shaped trading desk in the Beverly Hills office of now-defunct Drexel Burnham Lambert Inc.

It will be the most crucial decision of Wood's career. A federal judge for only 26 months, Wood could vindicate the government or mock its so-called war against Wall Street corruption. Having pleaded guilty in April to six crimes, Milken faces up to 28 years in jail. But Wood has almost unlimited power to decide how much of that Milken spends in jail—or if he goes at all.

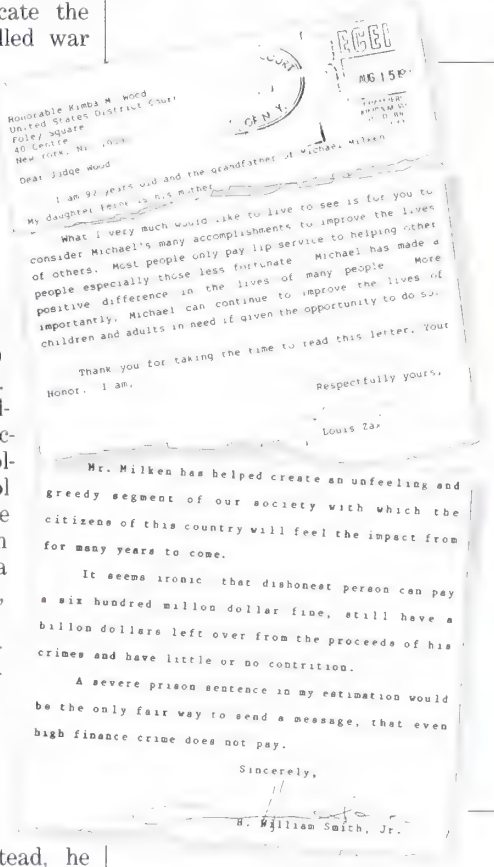
Although hundreds of Milken's fans have penned letters to Wood urging leniency, the 46-year-old Port Townsend (Wash.) native won't be easily swayed. Her resumé suggests her well-honed intellect: a cum laude baccalaureate from Connecticut College, a year at the London School of Economics, and a law degree from Harvard University. In 1978, she became a partner in a big Wall Street firm, LeBoeuf, Lamb, Leiby & MacRae.

NEW CLAIMS. Her former courtroom foes say that her unassuming appearance and soft voice are disarming. One former co-counsel, Stephen M. Axinn, a partner at Skadden, Arps, Slate, Meagher & Flom, says Wood would "never be the person who pounds tables." Instead, he says, she would listen intently and seem deferential. "Then, the next thing I knew, she'd be running the meeting."

Unlike some judges appointed by the Reagan Administration, the moderate Democrat is no apologist for Corporate America, though she spent years defending corporations in big product-liability and antitrust cases. Defense lawyers say Wood does her homework and takes pains to be fair. But a few critics say she is prone to be overly cautious to make up for her inexperience.

Before she sentences Milken, Wood can scrutinize not only the facts and circumstances surrounding his six admitted crimes but also almost anything else she deems relevant and reliable—even unproved evidence of new crimes.

Prosecutors, who stalked Milken for years, are exploiting that opening. In a lengthy "pre-sentencing memorandum," they are expected to urge Wood to consider many more charges than the six Milken has fessed up to and the 98 counts set forth in their indictment. Their goal: to show a "broad pattern" of wrongdoing by Milken that would warrant a stiffer jail term. But if Wood agrees to review the new claims, Milken's defense team, led by star strategist Arthur L. Liman, could demand a hearing and stall sentencing for months.



Honorable Kimba M. Wood
United States District Court
Foley Square
40 Centre
New York, NY 10007

Dear Judge Wood

I am 97 years old and the grandfather of Michael Milken. My daughter Lorna is his mother.

What I very much would like to live to see is for you to consider Michael's many accomplishments to improve the lives of others. Most people only pay lip service to helping other people especially those less fortunate. Michael has made a positive difference in the lives of many people. More importantly, Michael can continue to improve the lives of children and adults in need if given the opportunity to do so.

Thank you for taking the time to read this letter. Your Honor. I am,

Respectfully yours,

Louis Zax

Mr. Milken has helped create an unfeeling and greedy segment of our society with which the citizens of this country will feel the impact from for many years to come.

It seems ironic that dishonest person can pay a six hundred million dollar fine, still have a billon dollars left over from the proceeds of his crimes and have little or no contrition.

A severe prison sentence in my estimation would be the only fair way to send a message, that even high finance crime does not pay.

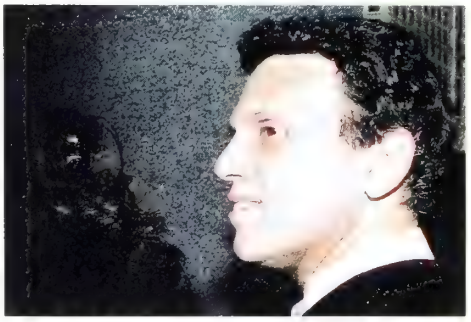
Sincerely,

H. William Smith, Jr.

FAMILY MAN. Wood may be too savvy to fall into that trap. She's not required to pay attention to the government's new charges, and chances are that she won't. Her colleague, Judge Pierre N. Leval, defused a similar situation last March when ordering former Goldman, Sachs & Co. arbitrageur Robert M. Freeman to serve four months in jail. Leval simply refused to accept the government's 200-page memo and declared that a hearing on new charges "is wholly impractical."

Wood is likely to keep in mind precedents set by others on the federal bench in New York who have punished Wall Streeters guilty of insider trading and other crimes. Notorious stock-market cheat Ivan F. Boesky—who implicated Milken—got the toughest jail term: three years, of which he served 24 months. Speculator Salim B. Lewis was sentenced to probation. And in return for helping prosecutors, former investment banker Martin A. Siegel got two months in jail.

Milken's supporters, of course, want the financier to serve no jail time. He already faces a $600 million fine. Wood's mail from Milken boosters describes a loving family man who has already suffered enough. Metromedia Co. CEO John W. Kluge and Safeway Stores Inc. CEO Peter A. Magowan, who made millions from Drexel-financed deals, sent glowing tributes. And numerous charities attest to the billionaire's generosity.



WOOD HAS GOTTEN HUNDREDS OF PRO-MILKEN LETTERS—AND A FEW HOSTILE ONES

But a few others think Milken deserves a harsher fate. Writes W. A. Susha of Antioch, Calif.: "My family and I . . . wish to express our desire to see [Milken] hung . . . until death."

Many who follow the case expect Wood to ignore the extremes and hand out a three-to-five-year sentence, plus lots of community service. Wood's decision will send a message: Whether she intends to or not, she will be passing judgment on the excesses of Wall Street in the 1980s.

By Michele Galen in New York

THE FUTURES SCANDAL

THIS TIME, THE FEDS' CASE MAY NOT BE THE PITS

The government looks stronger for the next round of trials in Chicago

Ira Raphaelson, the government lawyer who headed the investigation of corruption in Chicago's commodities pits, is nothing if not zealous. Years ago, confronting one particularly sleazy corruption suspect who had just testified before a grand jury, he vowed: "I'm going to squash you like a bug." Raphaelson wasn't just woofing: He won a conviction in the case.

Another Raphaelson vow is now being put to the test. The government's cases against 14 traders in the Chicago Mercantile Exchange's yen pit and 10 traders in the Chicago Board of Trade soybean pit are now coming to trial, and the stakes are high indeed. The feds have spent at least $4 million and four years probing corruption in the commodities pits, but they're still looking for a courtroom victory. The first trial, of three Swiss-franc traders on the Chicago Mercantile Exchange, ended in disarray with the jury deadlocked on more than 70 counts (table). After the judge declared a mistrial, Raphaelson said bravely: "We're not going away."

HARDBALL. Far from going away, the government in recent days has come on strong. It cut last-minute deals with three key defendants in the soybean case. They all agreed to testify against their former co-defendants in exchange for lighter sentences.

Prosecutors are playing hardball in other ways, too. They waited until the last business day before trial to send defense lawyers in the yen case vital information about the charges against their clients. The move left several attorneys grumbling about dirty prosecutorial pool. And the government succeeded in obtaining a judge's ruling that the jury won't be asked to rule on the emotionally charged issue of seizing traders' exchange memberships, cars, and even their homes, until after the panel decides guilt or innocence.

The last-minute moves have given the government momentum after its dismal showing in the Swiss-franc case, in which the jury delivered relatively minor guilty verdicts against only two of three traders. The tough tactics also reflect the feeling of urgency pervading the prosecutor's office. The early plan to use convictions in the first trials to net bigger fish at the futures exchanges will collapse if the two currrent cases end in acquittal. "This is the big one for the government," said a former prosecutor now representing one of the yen defendants. "They've got to win this one, or the whole investigation was a waste."

Victory is always uncertain, but it's already clear that prosecutors have a stronger case than in the Swiss-franc matter. In that proceeding, which defense and prosecution lawyers agree was the government's weakest case, the defense seemingly scored points at will by claiming that Randall Jannett, an F agent purporting to be a trader, w baffled by the nuances of futures tra ing. Defense lawyers also attacked Ja nett's surreptitious tape recordings incomplete and misleading.

Those arguments may not be so pe suasive this time around. The FBI age in the soybean pit, Richard Ostro spent a year at grain giant Archer Da iels Midland before he started tradin And Dietrich Volk in the yen pit, unli Jannett, befriended traders so succes fully that they talked freely about the exploits during breakfasts and afterno drinking sessions away from the hur burly of the trading floor.

SHARP DEALINGS. The government trump card in the upcoming cases mo likely will be the traders who recent have agreed to cooperate a testify against their form pitmates. Unlike the two fo mer traders who testified f the government in the Swis franc pit, neither of who could describe any specif dealings germane to the pro ecution, the 12 traders coope ating in the yen and soybe cases are expected to off specific testimony about a m jority of the defendant James D. Nowak, a bean tra er who pleaded guilty on Au 27, was charged in the ca for his dealings with at lea eight co-defendants. "We' starting the soybean ca with 9 out of the 19 origin defendants as witnesses notes Raphaelson. "Th doesn't hurt."

One defense argume holds that since sharp pra tices were so pervasive at t exchanges, they weren't re ly crimes. "It isn't a conspi cy when everyone is doing it," sa Thomas Durkin, attorney for yen brok Sam Cali. "Two of the most influent members of the exchange would routi ly come down on the floor and insist price changes." The defense will be loo ing for the kind of juror who apparent brought the Swiss-franc case to a ha According to prosecutors, that lone jur held out against conviction, convinc that what the government called crim were minor offenses better handled the exchanges' own disciplinary comm tees. As they sift through jury pro pects, defense lawyers will be looki for jurors ready to agree that Rapha son & Co., in creating the government elaborate trap in the pits, simp squashed tiny bugs with a 10-ton thum

By David Greising in Chica

THE FUTURES-TRADING SCANDAL: WHERE THE PROSECUTION STANDS

Exchange / Indictments	Outcome
YEN FUTURES	
CHICAGO MERCANTILE EXCHANGE 21 traders indicted on more than 500 counts	6 have pleaded guilty; 1 has pleaded no contest. Trial for the other 14 started Sept. 11
SOYBEAN FUTURES	
CHICAGO BOARD OF TRADE 18 traders and 1 clerk charged on more than 700 counts	8 traders and the clerk pleaded guilty. Trial for the others starts Sept. 17
TREASURY BONDS FUTURES	
CHICAGO BOARD OF TRADE 3 traders indicted on 130 counts	All 3 pleaded guilty. No trial
SWISS FRANC FUTURES	
CHICAGO MERCANTILE EXCHANGE In the first case to go to trial traders were charged on more than 200 counts	2 pleaded guilty. A mistrial was declared on most of the charges against the 3 remaining defendants. Retrial expected early next year

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SOCIAL ISSUES

DAYTON HUDSON FINDS THERE'S NO GRACEFUL WAY TO FLIP-FLOP

Waffling on Planned Parenthood aid irks both sides in the abortion furor

When Solveig Levitt's coffee maker broke in early September, her first impulse was to buy a new one at the local Dayton Hudson Corp. store. But Levitt, who has shopped at Dayton's for 33 years, is drinking instant coffee instead. Like many other Minnesotans, she's boycotting Dayton until the company reverses its recent decision to sever ties with Minnesota Planned Parenthood. Says Levitt: "I'm so disappointed in them. I won't go back."

BOYCOTTERS PEGGY LUCAS AND CLARE GRAVON VENT THEIR IRE

In recent years, abortion foes have persuaded several companies, including J. C. Penney Co. and American Telephone & Telegraph Co., to stop funding Planned Parenthood family planning programs. They claimed another victory when the Dayton Hudson Foundation decided to end its 22-year financial relationship with Planned Parenthood.

BORROWED TACTICS. But this time, pro-choice supporters responded with tactics more often used by their opponents. Women's groups called for a boycott. Angry shoppers wrote letters and closed charge accounts. Local newspapers editorialized. The heat grew so intense that on Sept. 7, Dayton announced it might resume funding Planned Parenthood. "People make mistakes," says Peter Wilderotter, Planned Parenthood's vice-president for resources. "We're happy they're reconsidering their decision."

Dayton's second thoughts suggest that the boardroom influence of anti-abortion groups may have peaked. As polls show strong support for abortion rights, companies may even trumpet their ties with Planned Parenthood. Cargill Foundation Chairman Walter Saunders seemingly courted abortion opponents' ire when he announced on Sept. 11 a $16,000 grant to Minnesota Planned Parenthood. Boasts Saunders: "The foundation won't allow any group to shape its decisions."

Dayton was an unlikely test case for pro-choicers. Besides giving $18,000 to Planned Parenthood, the company liberally supported family planning education programs sponsored by the Children's Home Society, the Association for the Advancement of Hmong Women, and the Young Women's Christian Assn.

But Dayton didn't foresee the wrath its decision would unleash. "We were completely shocked," says a company spokeswoman. Critics say the company caved in to a boycott threatened by an antiabortion group, the Christian Action Council, in August. Dayton says CAC pressure had no effect. But in a letter to Thomas Webber, executive director of Minnesota Planned Parenthood, the foundation said it would not renew its grant because "the foundation and the corporation don't want to be part of the national abortion-rights debate."

Reaction was swift. At the urging of local women's groups, shoppers clos Dayton charge accounts and return merchandise to stores. Margee Brack a Minneapolis resident who shopp Dayton for more than 40 years, cance a $5,000 carpet order and cut her char card in half. Jean Catkov, who has spe more than $1,500 at Dayton this ye called her personal shopper to tell h she wouldn't patronize the store t fall. "They underestimated the sponse," says Clare Gravon of the M nesota Alliance for Choice.

HEIR SUPPORT. Admits one Dayton sal person: "Our commissions may take beating." They could certainly slide the Christmas season. If Dayton has renewed Planned Parenthood funding then, says Peggy Lucas, board memb of the Minnesota Women's Consortiu boycott efforts will be redoubled.

They'll have plenty of support. Dayt board member Mary Patterson McPh son, president of Bryn Mawr Colle and a Planned Parenthood support vowed to say her piece at a Sept. board meeting. New York City Con troller Elizabeth Holtzman, a trustee the New York City Employees Reti ment System, which owns 438,290 shar of the stock, lambasted Dayton: "By tagonizing consumers, they've thre ened the value of our investment." A Mark Dayton, great-grandson of D ton's founder, wrote Chairman Kenne A. Macke to express his displeasure.

Reversing the decision won't ma Dayton's problems go away. CAC co- rector Thomas Glessner says his gro will proceed with its boycott if Dayt decides to fund Planned Parenthood. cal antiabortion groups promise to mand equal funding. Ironically, it seer Dayton Hudson has found a suref way to make itself a central figure the national abortion rights debate.

By Kevin Kelly in Chic

COMPUTERS

'IT'S LIKE BUYING A CONCORDE WHEN A CESSNA WILL DO'

The upgrade of Next's workstation may be too much, too late

Steve Jobs is still trying to launch the next computer revolution. In 1988, when the Next Inc. chairman first introduced his distinctive coal-black computer cube, he promised the new machine would so dazzle buyers that its influence would eventually change the course of computer technology. It hasn't worked out that way. Computer jocks loved the machine's sound and programming features, but sales stalled wh customers balked at its price tag a lack of software.

Now, Jobs will try again—with a b splash at San Francisco's Louise M. D vies Symphony Hall on Sept. 18. T three new Next machines will be mo powerful. They will use a new Motoro 68040 microprocessor chip to boost th speed, and analysts say Jobs will add

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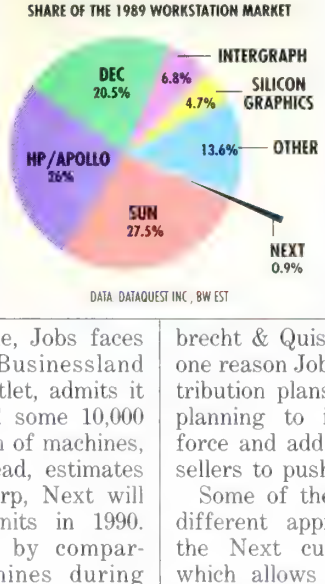
much-needed color monitor to his product line. Meanwhile, aggressive pricing on two new models will make them competitive with rivals in the $5,000 range.

More important than the new hardware is this: With his usual missionary zeal, the former Apple Computer Inc. chairman has enlisted two dozen or so key software developers to join him at the unveiling. Many of them will introduce new programs for Next's machines. Giant Lotus Development Corp. will show Improv, its new financial-modeling program that, for now, will be available only for Next. WordPerfect Corp., the No. 1 word processing software maker, will unveil a Next version of WordPerfect, and Ashton-Tate will show its new "talking" spreadsheet that allows users to annotate the ledger with voice messages.

This new software, says Jobs, "is going to make a lot of difference." After all, that's what helped Jobs's brainchild, the Apple Macintosh, take off.

WITH MISSIONARY ZEAL, JOBS INSISTS NEXT IS CATCHING ON



'DEAD MEAT.' But this time, Jobs faces a tougher challenge. Businessland Inc., Next's only retail outlet, admits it fell short of plans to sell some 10,000 units, or $100 million worth of machines, by the end of July. Instead, estimates market researcher InfoCorp, Next will ship only about 8,000 units in 1990. Sun Microsystems Inc., by comparison, sold 115,000 machines during its fiscal 1990, ended June 30. Says James H. Clark, chairman of rival workstation maker Silicon Graphics Inc. of Mountain View, Calif.: "They're dead meat."

One problem has been the $10,000 price tag on Next's technology, which includes high-quality sound capability and an optical disk drive—features that many customers don't want anyway. The price is more than Sun and others charge for comparable speed and power. "[Next machines] are fabulous, but it's just overkill," says Gary Etchison, a computer buyer for the fund-raising department at the University of California at Los Angeles. "It's like buying a Concorde when a Cessna will do." Others say Next's Unix operating system complicates integration in offices using IBMs or Apples.

POOR TIMING. A crowded field of well-established rivals also makes a Next revival unlikely. Sun, Hewlett-Packard, and Digital Equipment are entrenched as market leaders (chart), with machines that better target workstation buyers. And IBM's new RS/6000 workstation has sold out for 1990. "They're not going to penetrate," says Kathleen Hurley, an analyst at market researcher Dataquest. "The market is overpopulated, and the top vendors already own 85% of it."

To make matters worse, Businessland has problems of its own, including a loss of $23 million for fiscal 1990, ended June 30. The chain may not devote sales resources to a product that isn't selling well. "Businessland will sell what's easy," says Bruce Lupatkin, an analyst at Hambrecht & Quist in San Francisco. That's one reason Jobs will unveil expanded distribution plans at Symphony Hall: He's planning to increase his direct sales force and add a cadre of specialized resellers to push the machine.

Some of these marketers will take a different approach: They'll emphasize the Next cube's NextStep software, which allows developers to write programs in a fraction of the time normally needed. That could drive a new market: corporate computer departments that do in-house custom programming.

Next has plenty of cash to keep going: Jobs raised nearly $200 million from investors, including H. Ross Perot and Japan's Canon Inc. Besides, Jobs says that Next is catching on. He points to a 300-unit sales deal with the William Morris Agency Inc., and claims other big, unidentified buyers are lining up. But for now, Jobs's revolution has found few followers.

By Barbara Buell in San Francisco

CABLE TELEVISION

ESPN: BEHIND IN THE COUNT

Baseball isn't delivering the viewership the network promised

For dealmakers at RJR Nabisco Inc watching Major League Baseba on ESPN might prove more irrita ing than relaxing. They've been tryin to sell RJR Nabisco's 20% stake in the al sports cable network for almost a yea Now it looks as if they have a buyer i Hearst Corp. But major-league woe may have forced RJR to slash its price.

It turns out that baseball isn't th prize that ESPN thought it was last yea when it paid $400 million for the right t broadcast 175 games a season for fou years. ESPN learned the hard way tha many fans will root for—and watch—only the home team. The result: too fe viewers and losses of up to $35 million i 1990. And the deal still has three year to run. "They really miscalculated," say Paul M. Schulman, head of media buye Paul Schulman Co. in New York.

The troubles come when ESPN was o a streak. Its profit has gained steadil since 1985, and ESPN now reaches 61% o U. S. homes, making it the top U. S. ca ble net. Last year, ESPN made $125 mi lion in pretax profits, analysts estimate

TWO STRIKES. But when baseball fan didn't tune in, viewership fell almost 20% below what ESPN promised advertisers says ESPN President Steven M. Born stein. So ESPN had to give away mor than 1,000 30-second spots, and losse ran $9 million higher than expected.

With no rights to broadcast baseball' league championships or the Worl Series, ESPN is banking on better luc next year. Bornstein says he is "hope ful" ESPN will break even at least by th end of its four-year contract. But he' making no guarantees. Advertisers ex pect more bargains next year.

For RJR Nabisco, that's bad news. ESPN's major shareholder, Capital Cities/ABC Inc., is sitting tight with its 80% stake. The dealmaker won't comment, but the baseball troubles likely will shave up to $70 million off the $250 million RJR Nabisco originally wanted for its share, says John M Mansell, media analyst with Paul Kagan Associates in Carmel, Calif. Now, RJR' team might have better luck hitting a Nolan Ryan fastball than collecting a fa premium for its ESPN stake.

By Lisa Driscoll in New Have

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SPORTS BUSINESS

LOOK OUT, WIMBLEDON, HERE COMES LEIPZIG

Its pro tennis tourney may open the way for big-time sports in the East

When the communists ran East Germany, the party frowned on tennis as a deviationist pastime of the idle rich. While good, proletarian fun, such as motocrossing, was O. K. for the masses, "tennis used to be taboo," recalls Ivan Radosevic, chairman of West German-based Sports Consulting International (SCI). East Germans foolhardy enough to take racquet in hand were practically "enemies of the state," he says.

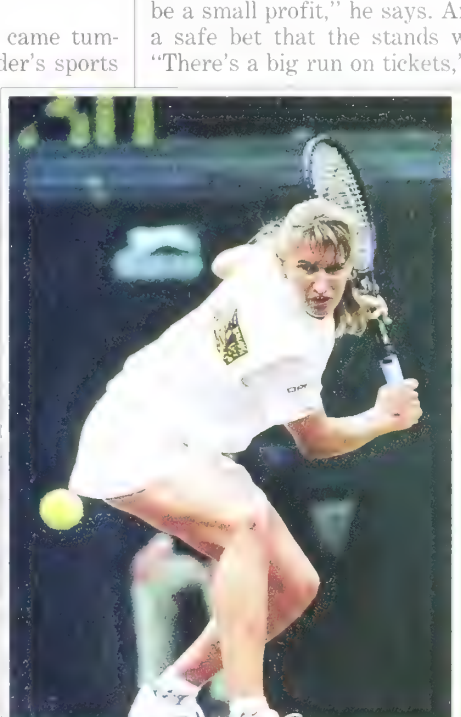
But when the Berlin Wall came tumbling down, so did the old order's sports prejudices. And now, the women's Grand Prix tennis tournament scheduled for the final week of September is moving from Mahwah, N. J., to Leipzig, East Germany. Boasting a $225,000 purse and such stars as No. 1-ranked Steffi Graf of West Germany and No. 6 Arantxa Sánchez of Spain, the tournament will open a new chapter in professional sports in Eastern Europe—just days before the unification of Germany.

HEAVYWEIGHTS. It's the first successful effort to lure big corporate sponsors into a major tourney behind the old Iron Curtain—and it shows the remarkable speed with which East Germany is learning to play in the big leagues. "Commercially, we're breaking into a new country," says Philip M. de Picciotto, the architect of the deal and managing director of Advantage International Inc., a Washington (D. C.)-based sports-marketing firm. But with a unified German currency, "financially, we're dealing with a Western country."

For less than $3 million, Advantage and SCI last February bought the rights to what had been the United Jersey Bank Classic from New Jersey tennis promoter John Korff. The move to Leipzig allowed the new owners to sign up a number of heavyweight sponsors. They include lead sponsor Volkswagen, which has a joint-venture engine factory and car-assembly plant in East Germany, and 450 East German dealers; Isostar, a Gatorade-like sports drink made in West Germany that's sold all over Western Europe; Sudmilch, a West German dairy; Kraft-General Foods; and American Airlines.

The sponsors kicked in a total of $3.9 million to finance what's now the Volkswagen Damen Grand Prix. Radosevic expects it to break even the first year. "If ticket sales work out, there could even be a small profit," he says. And it seems a safe bet that the stands will be full. "There's a big run on tickets," says Uwe Mackensen, sports editor of *Bild Zeitung*, a Hamburg newspaper. "This is the first time people [in East Germany] can see Steffi [Graf] live." Tickets cost $10 or so, about a third of what fans in West Germany would pay to see a Grand Prix tournament.

The sponsors expect a big bang for their bucks. West Germany's ZDF television network will beam the matches into both Germanys. Its *Sport Studio* show, seen by 30 million viewers each Saturday, will broadcast from the tournament site. And Czechoslovakian, Polish, and Romanian TV will be there, too.



Steffi Graf will vie for a $225,000 prize at Leipzig in the first world-class tennis event held behind the old Iron Curtain

Although other Eastern Europea countries, notably Czechoslovakia, hav produced such world-class tennis talen as Ivan Lendl and Martina Navratilova duplicating the Leipzig tournament else where will be tough. For one thing, U. S owners may balk at selling their tourna ment slots now that new American star such as Jennifer Capriati, Andre Agass and Pete Sampras are again stoking fa interest.

TIGHT PURSE STRINGS. Beyond that sponsors won't pour much money int Eastern Europe until the new goverr ments' currencies are firmly established The present Yugoslavian and Czechoslo vakian men's tournaments offer abou $175,000 in total prize money, which i rock-bottom on the tour and not enoug to draw top players. A women's tourna ment scheduled to be played in Bulgari this year for a tiny $75,000 purse wa canceled because of "economic and poli ical uncertainty," according to the Bu garian Tennis Federation.

Chronic logistical prob lems plague sports projects as they do most busines ventures in the region. Ter nis facilities don't measur up to the likes of Wimble don. Phone connections ar poor, hotels and food ar substandard, and worker have little experience i running a major event. A last year's Moscow Wom en's Open, a minor Gran Prix event, no one brough sawdust for players to dr their hands. A tournamen organizer had to go out an saw up a tree.

The Leipzig tournament' organizers claim they'l skirt such headaches. Fo 825 years, the city has host ed the Leipziger Messe, on of Europe's main trad fairs. Since the end of th World War II, the even has been the leading poin of contact for Western ex ecutives and Eastern industry. There ar plenty of good hotels—and no one's wor ried about the solidity of the mark.

Even before the first volley, Radose vic is thinking about the next Wester sport the East will love. With Yugosla via reigning as the world basketbal champion, he has high hopes for profes sional hoops there. Radosevic also want to promote another bourgeois pastime He's trying to build the first golf course in East Germany, outside Leipzig. Let's hope no one forgets the tees.

By Peter Hong in Washington and Den nis Phillips in Bonn

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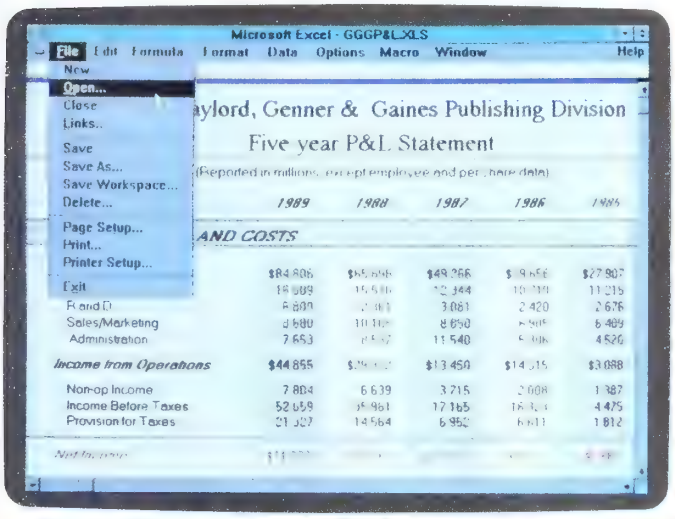
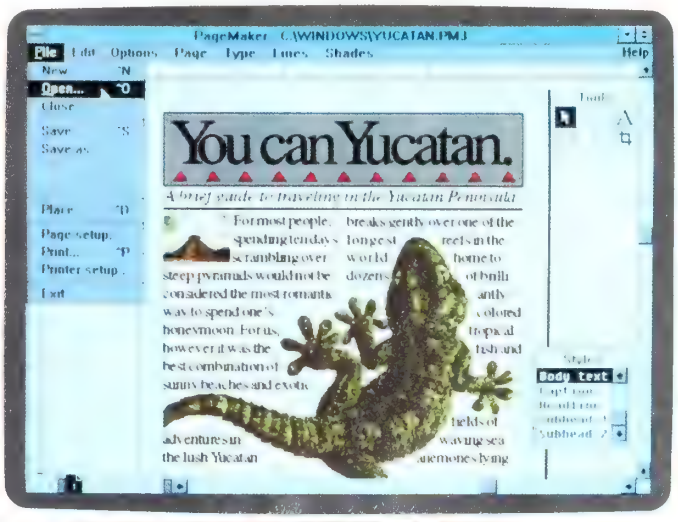
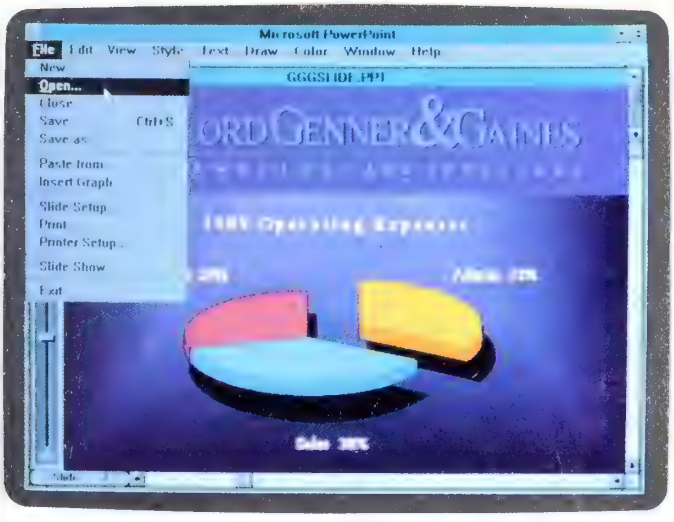
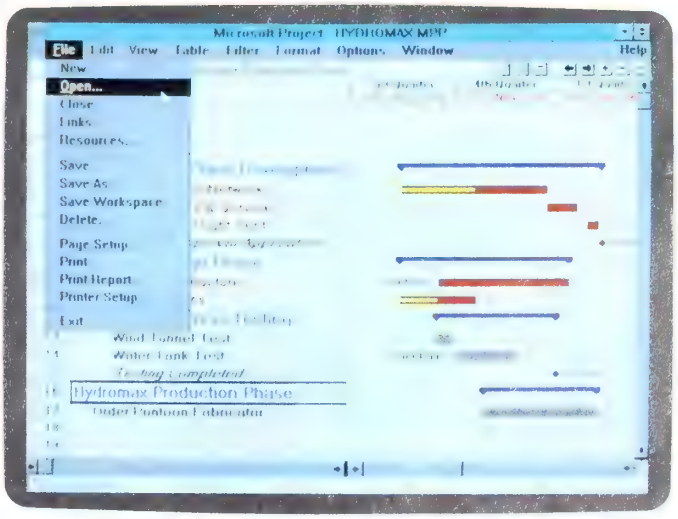








TEAMING UP TO COMPUTERIZE PLANTS

▶ Electronic Data Systems and Hewlett-Packard said they would chip in about $60 million to help Ask Computer Systems finance an acquisition that could shift the balance of power in the manufacturing technology business. On Sept. 11, Ask announced it would pay $110 million for Ingres, a [illegible] software maker with snappy technology but shabby finances.

To help finance the deal, Ask has agreed to sell a 10% equity stake in the combined company to HP and 20% to EDS. But HP and EDS aren't just interested in a good investment. The plan is for all four companies to team up to sell computers, software, and services to the world's factories. The potential loser from all this: Digital Equipment, which has worked closely with both Ask and Ingres in the past but might now lose clout to rival HP.

A TAXING TURN FOR TOWN-GOWN AFFAIRS

▶ The Evanston (Ill.) City Council on Sept. 11 voted 10 to 8 in favor of a $15-per-quarter tuition tax on Northwestern University students. The council members who voted for the tax said they resorted to the measure because the university imposes a heavy burden on city services but refuses to make any payment to offset the costs. Mayor Joan Barr says she will veto the bill, and the Council probably can't muster the 12 votes it needs to override. That should table the issue at least for this school year, which begins Sept. 17.

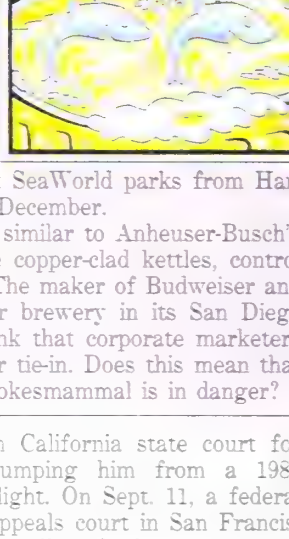
THE '70s COME BACK TO HAUNT SOLLY

▶ The good news is that Salomon Brothers won't have to take a charge against earnings. The bad news is that the big firm said on Sept. 11 that it would pay $84 million to the Energy Dept.

The settlement follows the government's investigation into alleged violations of U.S. crude oil price controls. In 1987, Salomon paid about $16 million to the department relating to crude oil sales from 1973 to 1977.

The payment to the government interrupts what has been a largely successful 1990 for Salomon. One setback has been its Philipp Brothers commodities unit, which lost $83 million in the first half of 1990. But overall, Salomon has done better than many of its brokerage industry rivals, thanks to its securities-trading and Phibro Energy businesses.

SHAMU THE KILLER PARTY ANIMAL?



Talk about microbreweries. Sea World, the Florida theme park best known for Shamu the killer whale, is about to get a new attraction: a 5,000-barrel-a-year brewery in the center of the park. Megabrewer Anheuser-Busch Inc. is building its tiniest plant to comply with a state law that permits beermakers to retail their wares only at a brewery. The company says it knew of the law before buying the six SeaWorld parks from Harcourt Brace Jovanovich Inc. last December.

The two-story brewery will be similar to Anheuser-Busch's larger plants—right down to the copper-clad kettles, control room, and walk-through cellars. The maker of Budweiser and Budlight plans to build a similar brewery in its San Diego park. It seems reasonable to think that corporate marketers are working on a Shamu-and-beer tie-in. Does this mean that Spuds McKenzie's career as a spokesmammal is in danger?

COLUMBIA S&L'S JUNK MAY SOON BE OURS

▶ The government on Sept. 10 announced it couldn't stomach the terms of Columbia Savings & Loan's proposed $3 billion sale of its huge junk-bond portfolio. The Office of Thrift Supervision didn't like Columbia's plan to lend the buyer, a Canadian-led partnership called Gordon America, 90% of the purchase price. Nor did it approve of a "nonrecourse" clause that would have allowed Gordon to dump the junk back in Columbia's lap.

But now Uncle Sam will probably end up with the junk. The OTS is expected to seize the insolvent S&L any day now. The seizure of Columbia's assets would neatly double the size of the government's junk-bond portfolio—to $6 billion.

A BUMPED FLIER'S SUIT TAKES WING

▶ Most travelers bumped from a flight figure they can't do much but accept the free-trip coupons and other compensation handed out by the offending airline. William West, however, went further. He sued Northwest Airlines in California state court for bumping him from a 1989 flight. On Sept. 11, a federal appeals court in San Francisco allowed the suit to go forward.

Northwest had argued that in 1978, Congress had prohibited such suits as part of legislation that banned state regulation of airlines. But the court drew a distinction between regulation and the right to sue to redress harm done. Northwest didn't immediately say whether it would appeal the ruling.

HOT PAPER STOPPED COLD IN MIAMI

▶ During a routine search of goods bound for South America on Sept. 6, U.S. Customs agents found $135 million worth of stolen British government bonds. The notes recovered at the Miami airport are part of a haul of 292 notes with a face value of $900 million stolen at knifepoint from London couriers in May.

The 71 confiscated bonds raise the total of recovered notes to 283. There have been 14 arrests made in connection with the heist, though none in connection with the attempt to smuggle the bonds to South America.

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EDITED BY STEPHEN H. WILDSTROM

THE HILL WON'T KEEP GIVING BUSH A BLANK CHECK IN THE GULF

The ovations that President Bush received from a joint session of Congress on Sept. 11 were typical of the cheerleading that has greeted his tough stand against raq. But soon, lawmakers will begin playing a more familiar ole, sniping at a White House policy that assumes peace in he volatile Middle East can be assured by flooding the region vith blank checks and sophisticated arms.

Capitol Hill will get its first opening when the Administra- ion proposes the biggest arms sale to the Middle East since he 1973 Yom Kippur war. Bush wants to sell p to $10 billion worth of weapons, including -15 fighters and M-1 tanks, to Saudi Arabia nd other Persian Gulf states. Despite quea- iness about the new arms race, lawmakers on't challenge Bush when he's riding so igh. Even the staunchest supporters of Isra- l have been lying low. The Hill barely eeped in late August when the White House sed emergency powers to sell $2.2 billion orth of jets, tanks, and missiles to Riyadh.

It's more likely Congress will expand the dministration's arms package than cut it. he Hill will insist that Israel get new weap- ns to match Arab firepower. There is an ssurance to Israel that their military quali- tive edge will be maintained," says Repre- ntative Lee H. Hamilton (D-Ind.), chairman the House Middle East subcommittee.

HAMILTON: DON'T FORGET ISRAEL

DISY DEBATE. Israel wants to bolster its air force with the ewest F-15E and hopes to beef up its armored forces with the 1A1 tank. But Israel's highest priority will be acquiring the ost sophisticated U. S. ground-to-air missile, Raytheon Co.'s triot. The Patriot, which has never been sold outside the ATO alliance, is capable of tracking multiple targets and de- roying incoming aircraft and missiles.

Calls for a rough balance in arms sales will also ignite a isy debate about paying for the weapons. Bush has asked ngress to forgive the $7.1 billion Egypt owes for past pur- chases, citing Cairo's economic straits and the extent of its commitment to Desert Shield. But on the Hill, says Clyde R. Mark of the Congressional Research Service, "the assumption is that if Egypt's debt is going to be reduced, Israel's debt is going to be reduced, too."

Forgiving Israel's borrowing will be sticky. Writing off the loans to Cairo, while requiring congressional approval, won't involve any new spending. Israel, on the other hand, owes nearly $10 billion, more than half in bank loans guaranteed by the Treasury. Wiping those debts off the books requires a cash payment to the banks—and an appropriation by Congress.

In the end, Bush likely will be handed a more expensive debt-relief package than he wants. That's why some lawmakers, foreseeing a steady stream of Third World nations lining up for write-offs, are wary of debt relief. "This is the wrong time for us to be going around forgiving a lot of debt," grumbles House Republican Policy Committee Chairman Mickey Edwards (R-Okla.).

Bush seems certain to suffer his clearest rebuff over the contention that the $6 billion that the Persian Gulf states have pledged to pay for Desert Shield can be spent without congressional approval. The Administration's claim is based on a law designed to cover the disposition of such gifts as the pandas given to the National Zoo. Powerful lawmakers, including Senate Armed Services Committee Chairman Sam Nunn (D-Ga.), will demand that normal appropriations rules apply.

Until now, Bush has run Desert Shield with more latitude than any President has enjoyed since the early days of the Vietnam War. But Congress is reasserting itself, and if the White House wants to avoid some unpleasant and probably futile fights, it will have to make the Hill more of a partner in decision-making.

By Seth Payne

APITAL WRAPUP

AUTOS

Detroit thought its big legislative problem this year would be tough- r controls on auto emissions. But even s Congress finishes up a new Clean ir Act, another threat has material- zed. Support is mounting for a bill, ponsored by Senator Richard D. Bry- n (D-Nev.), that would require cars to chieve an average of 40 mpg by the ear 2000, up from about 28 mpg to- ay. Motor Vehicle Manufacturers ssn. President Thomas Hanna calls he bill "an economic disaster." But sks Sierra Club lobbyist Daniel ecker: "Are young Americans roast- ng in the sands of Saudi Arabia to make the world safe for 18-mpg cars?" With adjournment three weeks off, opponents may be able to stall the bill this year. But if the gulf crisis continues, passage in 1991 is a good bet.

BANKERS

Times are tough in the banking industry, and governments aren't doing too well either. But Gulfstream Aerospace Corp. seems to view commercial bankers, central bankers, and finance ministers as a prime market. It will host a hospitality suite and airport show to promote the $24 million Gulfstream IV business jet during the Sept. 23-25 World Bank/International Monetary Fund meeting in Washington.

PERESTROIKA

Washington's Byzantine ways are suddenly looking good to Chief of Staff John H. Sununu and other top White House aides. In Moscow to help Soviet leader Mikhail Gorbachev set up an office of the President, they were horrified by the chaos in the Kremlin. "There are no direct lines of authority," says one staffer. "And we thought 535 members in Congress was bad. In his legislative branch, Gorbachev has 2,100 yahoos to deal with." But the White House crew's only concrete suggestion to improve the situation was setting up a presidential press office.

ARGENTINA

BELL ATLANTIC AND TELEFONICA OF SPAIN WILL RUN THE PHONES

GOING PRIVATE WITH NO HOLDS BARRED

Carlos Menem is bulldozing obstacles in the way of the great Argentine sell-off

Inside the seedy Buenos Aires central exchange of Entel, Argentina's state-run telephone company, switchboards are being manned by young army officers. Outside, police hold off angry telephone union workers striking against President Carlos Menem's push to sell Entel to foreign-led private buyers. The strikers fear that they will lose lush fringe benefits and near-total job security.

They are getting little sympathy from Menem—or from most Argentines, who hold union practices at least partly responsible for Entel's wretched service and 12-year waiting list for telephones. "Strikers will get dismissal telegrams," Menem declared in an interview at his presidential residence (box). "If they are not happy with the state sector, they can look for work in the private sector." The tough talk reflects Menem's determination to privatize Entel and a lengthening list of other state-owned operations, from Aerolíneas Argentinas, the country's international air carrier, to railroads, highways, and oilfields.

'JUMP-START.' Other Latin American countries have also started privatizing, but Menem in recent months has been making the sell-offs a key factor in his reforms, launched after he took office in July, 1989. Sales of money-losing state companies will halt heavy drains on public finances.

To make it work, though, Menem needs to bring in foreign companies. "I would rather have Exxon's money here working for Argentina than Argentine money in a Miami bank," Menem says, referring to the estimated $50 billion flight of capital in recent years. Exxon Corp. refines oil in Argentina, while 23 other oil companies are expected to bid up to $1 billion for leases on acreag that has been reserved, up to now, f Argentina's state oil monopoly.

Countries such as Argentina "nee foreign investment to jump-start ther to move down the road to the kind economies they want to have," says Hyde Tucker, president and CEO of Be Atlantic International Inc., an arm Philadelphia-based Bell Atlantic Corp. will be the operator for a group led b Manufacturers Hanover Trust Co. th won the June 28 bidding for the nort ern half of Entel's system, which th Menem government is dividing in tw Temporarily called Entelnor and Ente sur, they are scheduled to be privatize on Oct. 8. Entelsur, the southern hal will be managed by Telefónica, Spain telephone company, on behalf of a grou led by Citicorp that submitted the wi ning bid.

As part payment for Entelnor and Entelsur, the two groups promised to turn over Argentine debt paper with a total face value of $5 billion. In market value, that's around $750 million, since Argentine debt has been trading at about 15¢ on the dollar. The total will include debt purchased from other banks or supplied by banks that join the two consortiums by "swapping" debt for shares in the telephone companies.

Snags have turned up, however, in the sell-offs of both Entel and Aerolíneas Argentinas. In the telephone privatization, the group led by Manny Hanny missed the government's original Sept. 6 deadline for lining up participants in its consortium. The group pledged to swap debt totaling $2.3 billion as part payment for a 60% stake in Entelnor. The delay was caused by slowness among a group of Argentine shareholders in deciding how to allocate their 18% block of shares. Manny Hanny plans to keep 25% of the consortium's stake in Entelnor and syndicate 52% to other debt-swapping banks, while Bell Atlantic is getting 19%.

CASH ONLY. Now Menem insists that the two groups must plunk down their cash payments on Sept. 24 and sign contracts to take over the companies on Oct. 8. They will get an extra three months, until Dec. 28, to line up swap participants, but they must agree to underwrite the swaps themselves if necessary. Waiting in the wings, with a bank syndicate already lined up, is the runner-up bidder for Entelnor, a group headed by J.P. Morgan & Co.

Menem is having problems, too, with a syndicate led by Spain's Iberia Airlines that won the bidding for 85% of Aerolíneas Argentinas. The consortium is insisting on putting up a letter of credit in lieu of cash. The letter would be payable when the Argentine government has obtained assurances from all foreign holders of Aerolíneas debt that they would waive any right to slap liens on aircraft or other assets. That arrangement could take a long time, if it can be worked out at all.

Nevertheless, to keep up the momentum in privatization, Menem recently decided to sell off Segba, the electrical utility that serves Buenos Aires, as well as the shares in seven petrochemical plants held by the Defense Ministry. In July, Argentine and foreign companies paid $253 million for rights to produce oil from marginal fields. And major companies such as Texaco and Amoco are lining up for the scheduled sale of leases in richer areas.

Menem is even turning to private companies to operate services such as highways and railroads. A consortium led by Techint, an Argentine steel-making and engineering group, is the apparent high bidder for a 30-year concession to rebuild and operate 3,250 miles of grain-carrying rail lines. Chicago-based Iowa Interstate Railroad Ltd. will provide technical help and own a small stake in the venture, which calls for a $500 million investment.

These local deals, while small, are significant, for they are signs that some confidence is returning among local Argentine investors. It is the first time a recovery "has started in Argentina, not with investments from abroad," says Carlos Etcheverrigaray, part owner of the Banco del Sud. That could be the most lasting benefit of Menem's privatizing campaign.

By Jeffrey Ryser and Richard Kessler in Buenos Aires, with Joseph Weber in Philadelphia and John Pearson in New York

'THERE IS NO FLAG ON CAPITAL': A TALK WITH CARLOS MENEM

Despite a recession caused by his drastic economic reforms, President Carlos Menem, 60, is still running strong in the polls. Seated beneath photos of Juan and Evita Perón in his office in Olivos, the tree-shaded presidential residence in suburban Buenos Aires, Menem discussed his policies with São Paulo Bureau Chief Jeffrey Ryser and Buenos Aires Correspondent Richard Kessler.

Q *What is the key to your program?*

A Adjustment and production. Until now, prices for state services were political. I want these companies to charge prices that will enable them to be profitable so they can provide needed services, which are now horrendous.

But these adjustments must pave the way for their privatization. For example, [electric utility] Segba has 1,000 doctors for 22,000 employees. It's outrageous.

"WHEN PRIVILEGES END, CERTAIN BUSINESS SECTORS FALL"

Q *Why are you still popular in the polls, even though your reform measures have caused hardship?*

A Argentines who really work are sick and tired of the paralysis and setbacks from people who owe their income and lifestyle to privileges. Not just from the union sector, but also from companies that have existed thanks to state favors. Our measures, for the first time in the republic's history, are fair and equal precisely because they end privileges. And when privileges end, certain labor and business sectors fall.

Q *Can you change businessmen who are dependent on state subsidies?*

A If they don't change, they will have to shut their doors or get out of Argentina. If they go, other investors will take their place. I don't distinguish between national and foreign capital. There is no flag on capital. I ask myself, what is national capital? Fifty billion dollars in flight capital that has left the country via Argentine business executives? Or resources used by multinationals to produce here?

Q *Can you avoid another price explosion led by the [protectionist businessmen's] Argentine Industrial Union?*

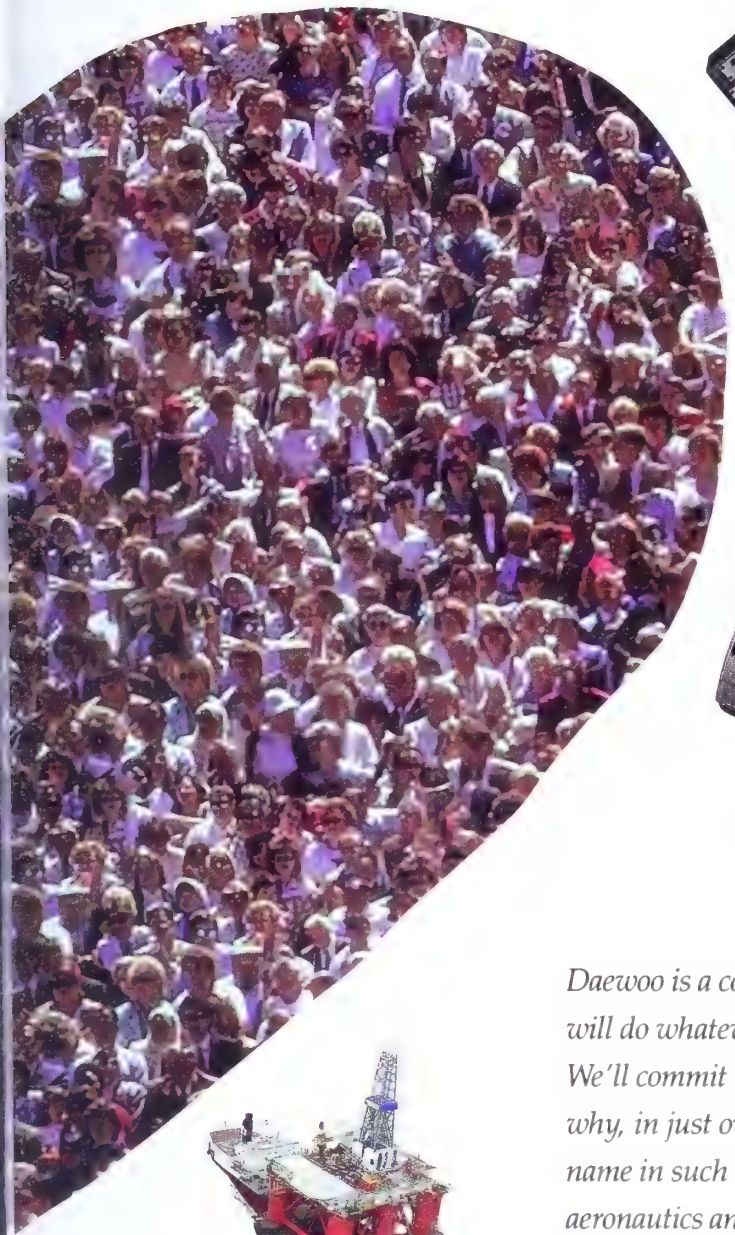
A They were endlessly demanding free markets from me before I won the [1989] presidential election. Because I am of Peronist extraction, they thought none of this would happen. Now that they have total freedom, they feel squeezed, asphyxiated, injured. Now they must compete.

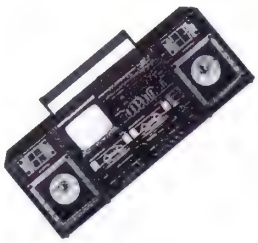
Q *What have you achieved in foreign policy?*

A We have reinserted Argentina in the world. Because it had broken many pledges, it was considered by the IMF, Paris Club, and other international groups as a debtor nation that was unreliable—an estranged nation on the periphery. Now, Argentina is viewed abroad as a reliable nation. We are paying [$40 million per month] debt interest. The amount is small, but it is a demonstration of goodwill to pay foreign debt.

THE UNIVERSAL LANG

AGE OF COMMITMENT.





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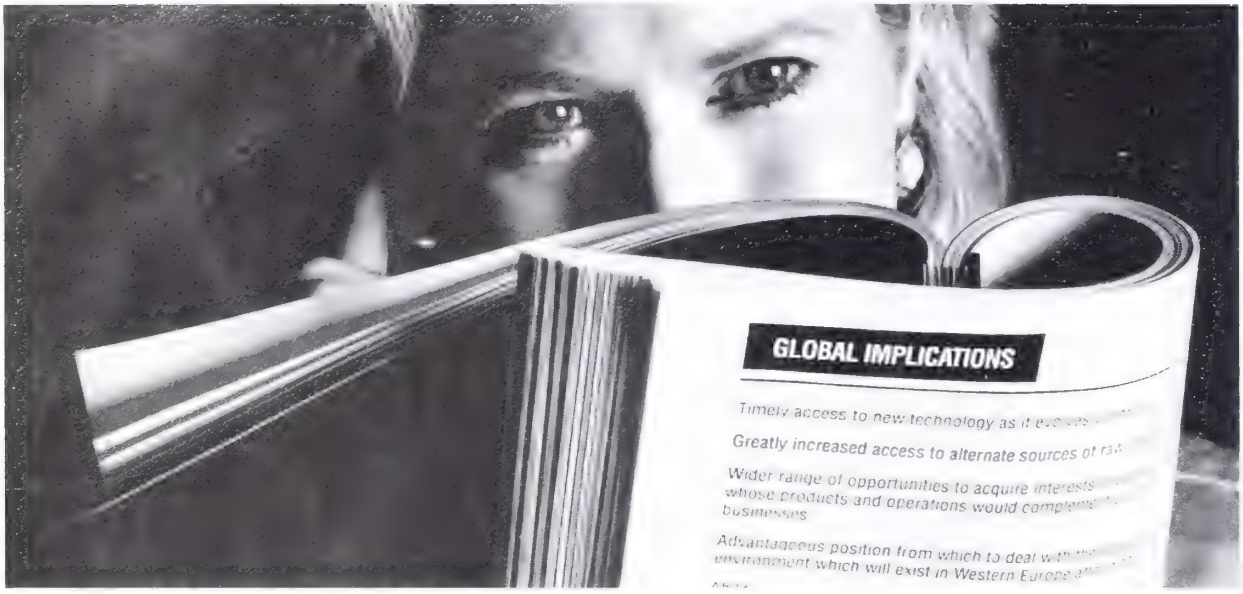

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INTERNATIONAL PAPER

EDITED BY PETER GALUSZKA

CAN BEIJING USE THE IRAQ EMBARGO TO WIN FRIENDS IN THE WEST?

Weary of being an international pariah following its bloody crackdown on dissidents last year, China has embarked on a quiet campaign to reinstate itself in he world community. Starting in July, when Deng Xiaoping ıstructed the government to begin the process, China had een slowly rebuilding its image with small steps such as nproving ties with such wary Southeast Asian nations as ietnam, Indonesia, and Singapore and reaching out to such ght-wing countries as South Korea and Saudi Arabia. Then, hina's single biggest arms customer, Iraq, invaded Kuwait.

As a result, China's leaders are in their ıost difficult position since the Tiananmen quare massacre in June, 1989. For now, Chi-a is going along with the U. N. sanctions ɔught by Washington that embargo all trade ith Iraq except for "humanitarian" ship-ıents of medicine and food. In doing so, Chi-a is giving up billions of earnings from arms ales, and no one in the U. S. or the Western plomatic community knows if Beijing will ntinue to adhere to that policy. For that ason, U. S. intelligence officials say China's mbargo compliance is one of the most closely atched developments in the gulf war.

IN THE FORBIDDEN CITY: CHINA HAS BEEN SOFTENING ITS IMAGE

BOUT-FACE. China is desperate to repair its ternational relations because its economic risis is deepening. Shortages of everything om foreign exchange to high technology ave grown, along with its dependence on world trade. Its idget is in dire straits. State industries report growth of less an 1% this year, as losses soared 99% during the first seven onths of 1990. Prime Minister Li Peng told Singaporean ader Lee Kuan Yew on Aug. 11 that China can't afford the onomic instability caused by Western ostracism. By rejoin-g the world community, Beijing's leaders hope to see re-umption of World Bank aid, admission to GATT, and perhaps 'en a return to pre-1989 levels of Western investment.

To help obtain those goals, China is shedding its usual obstructionist role in the U. N. Besides backing the Iraq embargo, it also did an abrupt about-face and supported the U. N. Security Council's framework for elections in war-torn Cambodia. But even though the Chinese supported the Iraq embargo, they are working hard not to offend Saddam Hussein more than they have to or soft-pedal their anti-imperialist stance before Third World countries. Deng Xiaoping scored propaganda points with developing nations by castigating the U. S. and Iraq as "two hegemonists" in the gulf crisis. And China's ambassador to the U. N. argued that the resolution authorizing the naval blockade of Iraq did not permit the use of force. Along with India and Iran, China is implying that the U. N. embargo might not cover food and medical supplies.

PAYOFF. The White House response to the new Chinese diplomacy has been muted. But some U. S. politicians and analysts seem appreciative that the Chinese have at least stuck to the ban on weapons sales. Representative Jim Leach (R-Iowa) suggests that China's cooperation in the U. N. is "vindication" of Bush's policy of continuing contacts with Beijing. One payoff of China's new policy, says an Administration source, is that it tends to squelch any moves in Congress to end the most-favored-nation trading status that country now enjoys.

Whether China's overtures pay off in other ways may soon be clear. Its leaders will be counting how many foreign dignitaries show up for the Asian Games in Beijing on Sept. 22. More telling will be if the World Bank, the International Monetary Fund, and Western businesses warm to appeals for reinvestment. Beijing isn't about to say its crackdown on economic reform and democratic trends was wrong. But the country's new diplomatic cooperation suggests it's ready to talk about almost anything else.

By Dinah Lee in Hong Kong, with Lynne Curry in Beijing, Amy Borrus in Washington, and Ruth Pearson at the U. N.

LOBAL WRAPUP

ANADA

During six fast weeks of election campaigning, Ontario's new Premier-elect, Bob Rae, promised his government would refuse to enforce provisions of the U. S.-Canada trade pact hat were not in the interests of Ontario workers and companies. Since Ontario accounts for 40% of the Canadian economy and alone is a major U. S. rade partner, that sounded like a formidable threat. But Rae, an old-line socialist, had been hawking a Canadian-ıationalist line so often that few gave ım a chance of winning.

Now, as Rae's victorious New Democratic Party prepares to take over Canada's largest province on Oct. 1, no one can predict the future. Ontario is at the center of Canadian nationalism, and even the Liberal provincial government that lost office was strongly opposed to many provisions of the Free Trade Pact.

The New Democrats ran on a 15-point Agenda For People that closely aligned the party with labor unions that want strong job guarantees and ample subsidies for industries hurt by falling tariff walls. Such steps would hit directly at the effort between Ottawa and Washington to reduce government subsidies of industry.

Rae also argued for curbs on developers to preserve a greenbelt around Toronto and against any new nuclear-power plants. He's also against a new federal value-added tax that would reduce Ontario's taxing power but is the centerpiece of reforms proposed by Prime Minister Brian Mulroney.

Rae's NDP won because it tapped deeply into Ontario's resentment of many new Canadian ills, including Mulroney's handling of Quebec's threats to secede from Canada's federal system and the slide of Canada's economy toward stagflation. Although Rae's power to affect federal issues is still unknown, his party's comfortable hold on 74 of 130 parliamentary seats will make him a force to be reckoned with both in Washington and Ottawa.

STRATEGIES

WARNER-LAMBERT: CAN R&D TAKE IT TO THE TOP TIER?

It's hiring talent and spending money to develop ethical drugs

As the son of a Nebraska pharmacist, young Joe Williams used summers to escape the family drugstores to work on a Colorado cattle ranch. But a salesman's job at Parke-Davis convinced him that pharmacy, not cattle, was his true calling. Now a year from retirement, the 64-year-old Williams is leaving a legacy as chief executive of the drugmaker's parent, Warner-Lambert Co.

Since 1980, Joseph D. Williams has transformed the company, once a maker of products as varied as cookies and intravenous pumps. Warner-Lambert, with annual sales of $4.2 billion, now focuses on prescription drugs and drugstore products and has an earnings growth rate rivaling those of bigger competitors. But the growth masks a problem: Warner-Lambert is one of the smallest and least profitable drug companies in an industry increasingly dominated by giants. It remains dependent on consumer products, and its hottest drug, Lopid, will lose its patent protection in 1993.

To position Warner-Lambert for the 1990s, Williams has invested heavily in research and lured top pharmaceutical talent away from competitors. "They searched for the stars of the industry," says Mary Jo Veverka, head of the pharmaceutical practice at consultant Booz, Allen & Hamilton Inc. in New York.

SECOND TIER. Williams' moves could soon bear fruit. One plum is Cognex, which, if approved by the Food & Drug Administration, would be the first drug available for the treatment of Alzheimer's disease (page 68). And then there is Novon, a biodegradable starch substance that Warner-Lambert hopes will help start replacing disposable plastic products as early as 1992.

Industry analysts say the two products may contribute $500 million to sales by mid-decade, which would be a big boost to the Morris Plains (N. J.) company's bottom line. Since restructuring and writing down $550 million in 1985, Warner-Lambert is lean enough to scratch out earnings growth at a 15.5% annual clip—compared with 9% for the 1980s—on sales growth of less than half that amount. Williams expects earni growth this year to "easily" exceed 1 based on a 19% jump in income on sa of $2.25 billion in the first half.

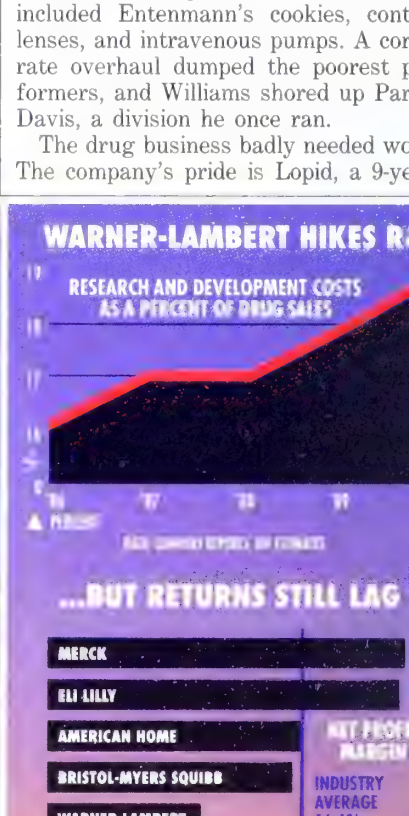
Despite such growth, Warner-Lamb remains a sluggish, second-tier dr company. Ethical drugs account for $ billion in sales, one-fifth the level at dustry leader Merck & Co. Warner-La bert's overall return on sales is ab 10% vs. an industry average of 16. Most of the company's sales and ea ings come from high-profile consur brands such as Listerine mouthwa Trident gum, and Schick razors.

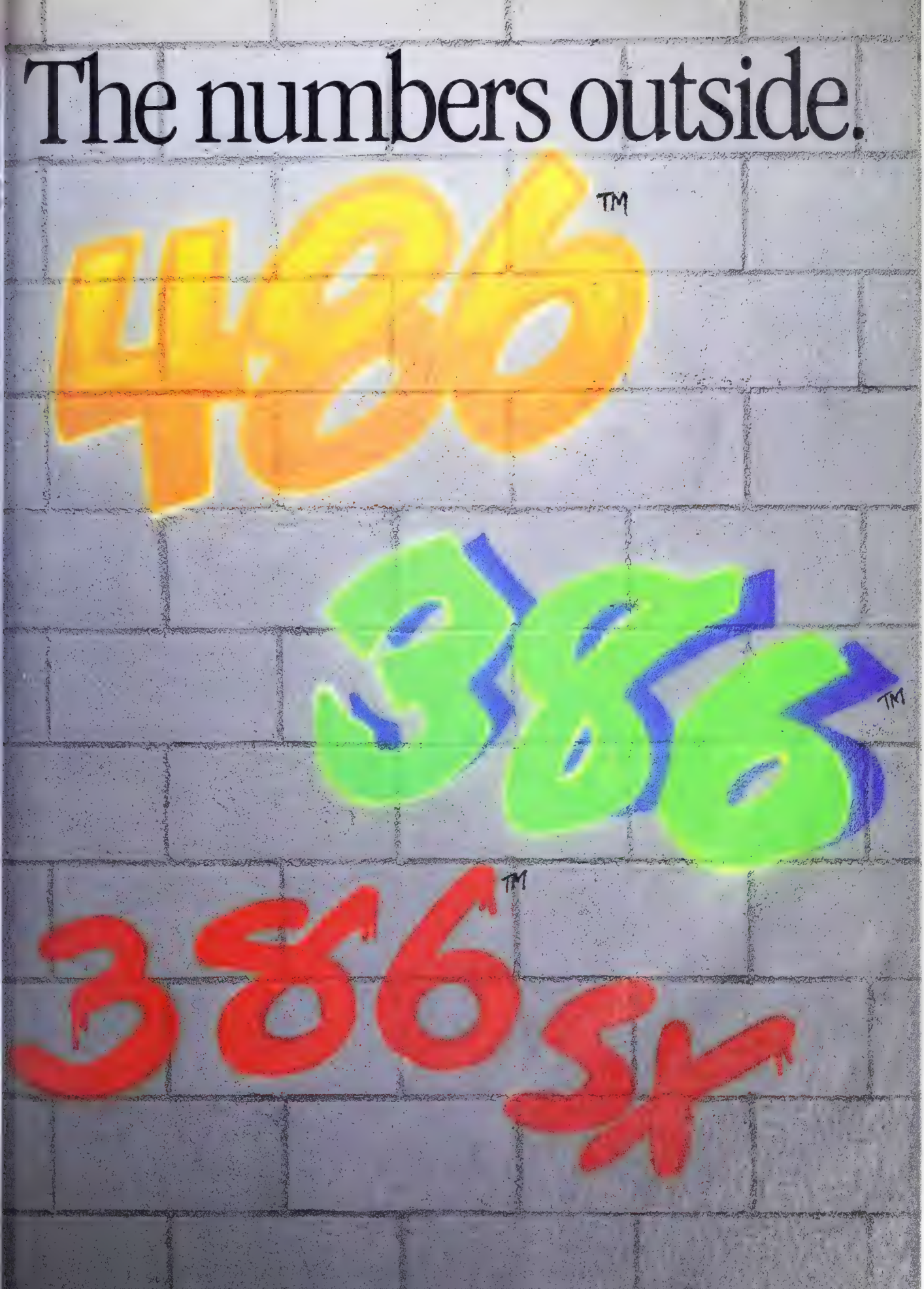
Still, Warner-Lambert is trim and cused compared with the start of 1980s, when its product assortment a included Entenmann's cookies, cont lenses, and intravenous pumps. A cor rate overhaul dumped the poorest p formers, and Williams shored up Par Davis, a division he once ran.

The drug business badly needed wo The company's pride is Lopid, a 9-ye old cholesterol regulator and, with 19 sales of $285 million, the most success drug in company history. But Lopid w a singular success. Over 20 yea Warner-Lambert's record of getting n drugs from patent to FDA filing rang from five years for an immediate-tre ment antiviral agent to 14 years for drug to treat chronic diseases such arthritis. Merck's range over the sa period was three to eight years.

Williams is attacking the problem w new recruits and more money. He a President and CEO-designate Melvin

RECRUITED IN 1988, RESEARCH CHIEF CRESSWELL IS CRUCIAL TO WARNER-LAMBERT'S REVIVAL

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THE SUSPENSE BUILDS OVER AN ALZHEIMER'S DRUG

Six months. That's how long industry railbirds expect the Food & Drug Administration will take to render judgment on Cognex, the controversial drug that could be the best hope yet for the treatment of Alzheimer's disease. Warner-Lambert Co. filed for approval of Cognex last June, and the stakes are enormous.

For 4 million U. S. victims and their families, a Cognex decision is eagerly awaited because scientists claim the drug can slow the progress of the disease. Insurance companies stand to benefit, too, since the drug could cut the time Alzheimer's sufferers spend in nursing homes. Cognex could be Warner-Lambert's first big drug since Lopid, a cholesterol regulator, was introduced in 1981, later boosting the company's stock price.

"Cognex is the AZT for the Alzheimer's market," says Christina Hester, a pharmaceutical analyst for Smith Barney, Harris Upham & Co. in New York, referring to the AIDS drug. She thinks Cognex may contribute up to $450 million in sales by 1994.

UNCERTAINTY. Any new drug approval bears an element of suspense, though, and Cognex is no exception. Recent tests by Canadian and French scientists found that a similar compound showed no overwhelmingly positive effects. Warner-Lambert has found their research limited in scope.

Cognex is the trade name for tetrahydroaminoacridine, or THA. The compound inhibits the breakdown of a brain cell neurotransmitter that is crucial for thought processes. An old compound, THA sparked interest in the mid-1980s, when a California doctor named William K. Summers found that Alzheimer's victims showed marked cognitive improvement when treated with the drug. Summers received a patent last year, although the FDA has criticized his research methods.

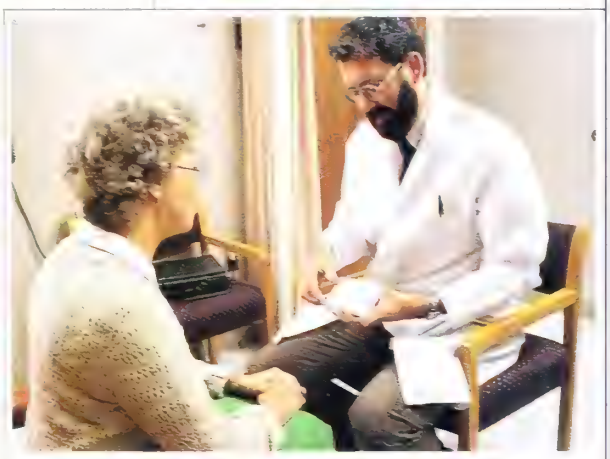
Summers' results prompted the National Institute on Aging in Bethesda, Md., to enlist Warner-Lambert in the development of a drug. The two parties have been working together on clinical studies since 1987, with the company footing the bill. If Cognex is approved, the company contends it has exclusive commercial rights to the product for five years. Warner-Lambert is legally challenging Summers' patent, which it describes as "weak."

Does Cognex work? Initial Warner-Lambert tests show the drug is effective in the early stages of the disease and only then in about 40% of the cases. But the first clinical tests had to be suspended in 1987 when some patients developed liver poisoning. Warner says it was dose-related and reversible. Researchers reduced the dosage and continued testing.

Despite safety and efficacy questions, industry analysts expect the FDA to expedite its review. With so much at stake, even limited benefits might be enough to win FDA approval. "If we can keep people out of nursing homes and functioning for five more years, that will reduce the number of people who would be called victims of Alzheimer's by 50%," says Dr. Zaven Khachaturian, an associate director at the National Institute on Aging.

Meanwhile, 10 other drug companies are preparing Alzheimer's remedies of their own. Besides Cognex, the closest is Forest Laboratories' Synapton, which the company says is still 12 months from a new-drug application to the FDA. Such a wait for an alternative is yet another reason the stakes for Cognex are so huge.

By Bruce Hager in Morris Plains, N. J.



TESTING COGNEX: THE DRUG MAY INHIBIT DAMAGE TO BRAIN CELLS IN MANY PATIENTS

Goodes have recruited some season pharmaceutical executives to bols management. Two years ago, Warn Lambert lured Lodewijk J. R. de Vi 45, away from a 20-year stint at Sch ing-Plough Corp. to head its U. S. ope tions. And last year, the company hi Joseph E. Smith, a veteran of Rorer a Johnson & Johnson, to lead Parke-Da

Luring top talent to Warner-Lamb wasn't easy. "My impression was t they were not really on the cutting ed of science," says Ronald M. Cresswel crucial player in reviving Warner-La bert. Cresswell, a former research ch for Wellcome Foundation Ltd., to charge in 1988 of Warner-Lambe worldwide drug research based in A Arbor, Mich. Cresswell in turn recrui Pedro M. Cuatrecasas, an old Wellco colleague and a renowned biomedical entist. The two have focused Warn Lambert's R&D on cardiovascular a central nervous system drugs.

The company is putting more eggs each basket. It will spend $2 billion research through 1994, excluding a $ million addition to its Ann Arbor facil "They are making some very big be and we won't know for another four five years how well that will pay of says Mary Ellen McCarthy, an anal at Shearson Lehman Brothers Inc.

The early results are promis enough. Besides Cognex, Warner-La bert has about a dozen compounds eit in final trials or awaiting FDA approv These include Accupril, an antihypert sive, and the antibiotic Penetrex. W Street analysts say the two could ad total of more than $300 million to sa by 1995. "The double-digit growth in t corporation will come from pharmace cals," boasts Williams.

TEMPTING TARGET? Ethical drug sa will probably top those for over-t counter products this year for the fi time ever, and the 17% operating m gins—among the industry's lowes have plenty of room to expand. But company is not ignoring its consur brands. Although sales have soften the company has increased its adver ing budget to $1 billion to make s people keep gargling with Listerine a popping Halls cough drops.

Questions remain, of course, and biggest is whether Warner-Lambert stay independent. Recent megamerg in the drug industry suggest that W liams' legacy could be one of build Warner-Lambert into a tempting tar for a foreign drug company. But exp the company to put up a stiff fight less the deal is extremely attractive. Williams, a registered pharmacist, chemistry is fine the way it is.

By Bruce Hager in Morris Plains, N

The computer inside.

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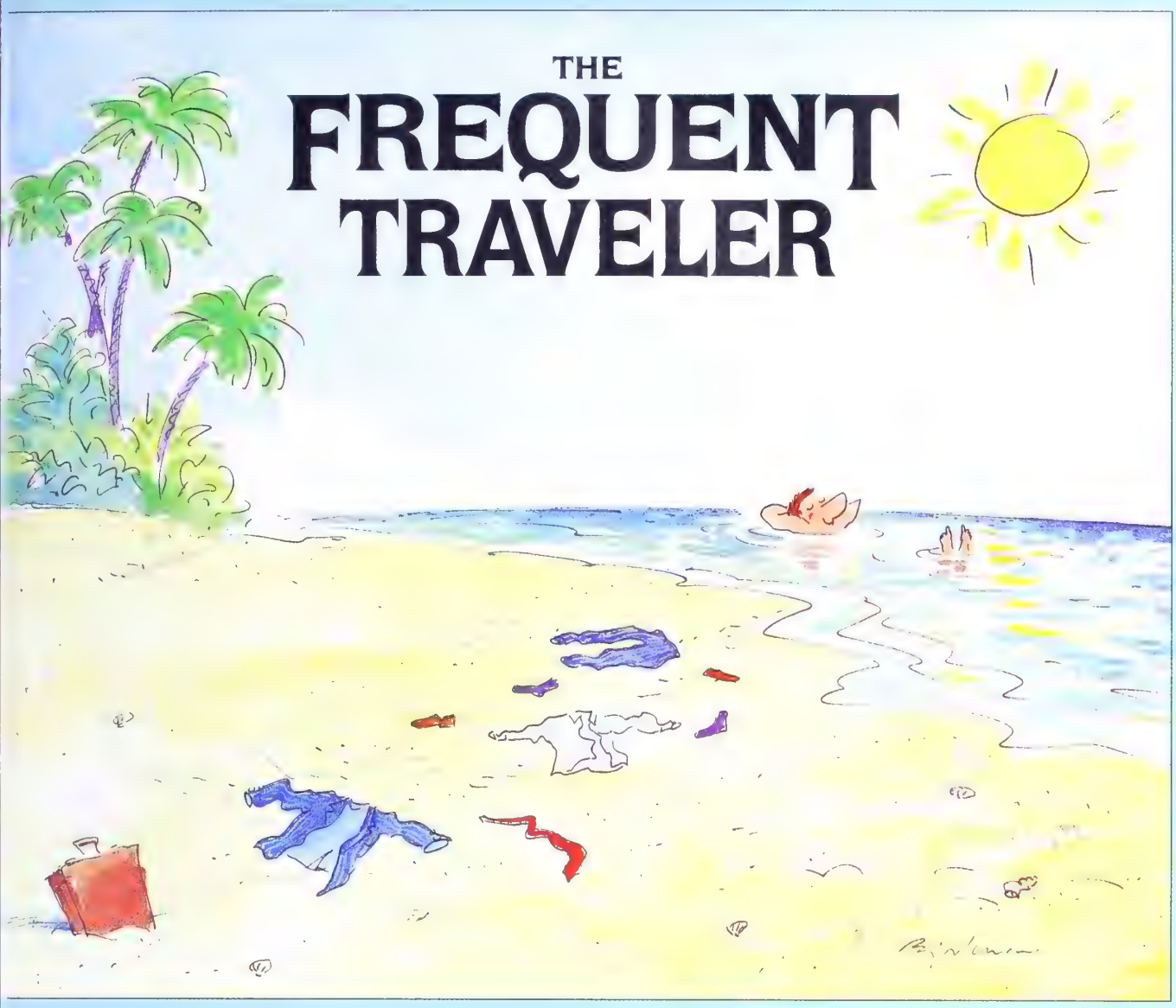
THE FREQUENT TRAVELER



I	ASIA'S BEACH RESORTS
II	TOUCH AND GO
III	VACATIONING WITH FREQUENT-FLYER AWARDS
IV	SET SAIL ON A THEME CRUISE
V	GETTING INTO THE BIG GAMES

I ASIA'S BEACH RESORTS

MANY PRIME PACIFIC RIM GETAWAYS HAVE THE ADDED ALLURE OF ACCESSIBILITY

In Asia, opposites embrace, and harmony often arises out of a balance of extremes. On one hand, the continent is home to the planet's most frantic cities, caldrons of dust and heat and noise. But it also offers the business traveler a simple antidote: Inevitably, that last meeting is only a short trip from a sumptuous beach. There, the urban angst is counteracted by gentle breezes rustling the palms and by pristine waters.

While finding a beach in Asia is no problem, selection can be. There are uncountable miles of splendorous coastline that stretch from Korea to Indonesia to Burma, each with its singular joys. Like any other vacation choice, the decision over which beach to visit should be guided by time, money, and season (Chinese beaches, for instance, are chilly in January). Cultural curiosity should play a role, too; while beaches may be superficially

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similar, a strand in Thailand can be utterly unlike one in Indonesia.

For business travelers with only a day to spare between meetings, several of the Asian hubs have pleasant beaches only a short drive away. In Hong Kong, for example, a careworn executive can hop a bus or cab and be at busy **Repulse Bay Beach** in minutes. Singapore has beaches on **Sentosa Island**, a quick taxi and ferry (or cable car) ride away from most hotels. And just a few hours outside of Bangkok, there is **Pattaya**, the so-called Thai Riviera.

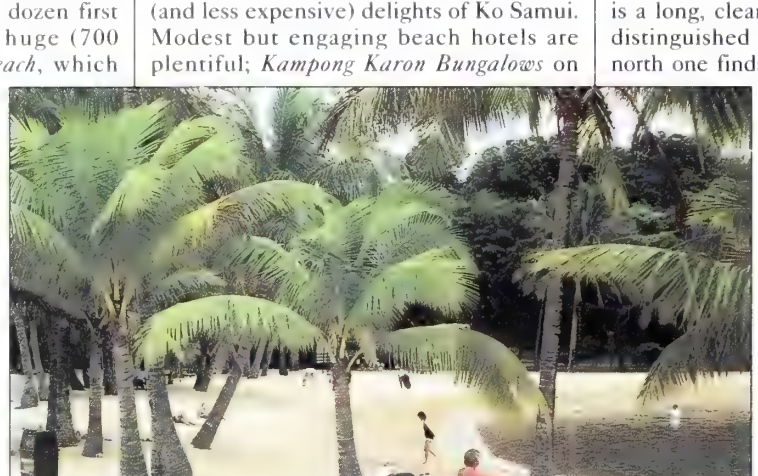
A quiet fishing village a generation ago, Pattaya now offers a full palette of beachside amusements. Daytime activities range from riding Jet Skis to paragliding, but the area's water has become polluted in recent years; that puts the emphasis on the night, when the main strip is a frenetic hodgepodge of good restaurants, Thai boxing, street vendors, trained snake acts, and more traditional vices. Visitors can choose from more than half a dozen first class hotels, including the huge (700 rooms), plush *Royal Cliff Beach*, which boasts its own beach and commanding views of the ocean; it is, however, slightly away from the village center. Closer to the action, the delightful *Orchid Lodge* has tennis courts and its own banana-loving elephant in the courtyard. (Unless otherwise noted, bookings for the resorts in this article can be made via Utell International; 10605 Burt Circle; Omaha, NE 68114; 800-448-8355.)

While Sentosa, Repulse Bay, and Pattaya fit the dictionary definition of an Asian beach, they are a far cry from the Asian beaches of one's imagination: The sand is not an unblemished ribbon, that scent in the air is not frangipani. But those sensations are close at hand for anyone willing to invest just a few more hours of travel.

In Thailand, for example, a short plane ride takes one from Bangkok to the brand-new airport on the island of **Ko Samui**. While lacking nothing in the way of creature comforts, Ko Samui manages to preserve some of the gentler facets of Thai culture. With a rented motorcycle, an around-the-island jaunt will reveal golden rice paddies, isolated temples, and serene beaches. There are also several decidedly unquiet beaches, crowded with budget tourist shanties and video-packed restaurants, but those are easily avoided.

First class accommodations are available at the new *Imperial Samui* or *Tongsai Bay* resorts. For a less luxurious—but still decidedly civilized—mix of good food, airy cottages, and gorgeous surroundings, visit the *Coral Bay Bungalows* on the northeast shore or the somewhat more basic *Coral Cove Bungalows* farther south. (Bookings for these last two resorts will test the resources of a U.S.-based travel agent but can be made by most agents in Bangkok.) Adventuresome travelers are encouraged to search out the new bungalows that seem to pop up every season. In general, visitors may count on small rooms, inconsistent electricity, stunning scenery, and the realization of every beachcombing fantasy they've ever entertained.

Across the peninsula and farther south, the island of **Phuket** is just a 45-minute flight from Bangkok. Phuket offers the full spectrum of Thai delights; there are beaches where the street carnival rivals Pattaya, but other parts of the island are reminiscent of the softer, less developed (and less expensive) delights of Ko Samui. Modest but engaging beach hotels are plentiful; *Kampong Karon Bungalows* on **Karon Beach**, with its artfully decorated restaurant and rooms, is just one example.



Sentosa Island is home to some of Singapore's pleasant beaches.

Photos by Carl Purcell

Those with more luxurious tastes might try the top-of-the-line *Phuket Yacht Club* or the new *Amanpuri*, considered by some to be the best resort in Southeast Asia. Built with an eye to luxury and privacy, Amanpuri offers 40 individual bungalows, resembling Thai temples more than seaside cottages, nestled into the hillsides of an old coconut plantation. Since the owners have purchased the adjoining property, the area there will never be overbuilt—as several of the other beaches on Phuket have been. (Amanresorts; 5777 West Century Blvd., Suite 1015; Los Angeles, CA 90045; 800-421-1490; in California, 800-262-4220.)

Business travelers in Singapore with a few extra days to spare should explore Malaysia. The island of **Penang**, off the northern end of the peninsula's west coast, has long been renowned as a vac tion area and has the gracious old *Easte & Oriental* hotel to prove it. Though the waterfront, the E&O doesn't qual as a true beach resort; it is in the city, one thing, and it is simply too stately. was built, in 1885, by the same cha that gave the world Raffles in Singapo and the Strand in Rangoon, and it echo the colonial charm of those institutio (Eastern & Oriental hotel; 10 Farqu St.; Box 399; Penang 10200, Malays 664-375-322.)

For those with more modern tastes, t *Golden Sands* has 395 rooms on a love beach. What draws people to Penar though, is its temples and a lively mingli of cultures: Thais, Chinese, Indians, a Malays have all left their mark there. T pure beachophile will find plenty on the land, but he or she may find even more s isfaction on the other side of the peninsu

Almost the entire east coast of Malay is a long, clean strip of sand, each bea distinguished largely by its name; to t north one finds the **Beach of Passiona Love**, the **Beach Melody**, and the **Beach Whispering Breeze**. T beaches between **Kua Trengganu** and **Kuant** are of special intere though, as the homi grounds for seven species turtles—giant, half-t leather-backs among the The turtles return fr their ocean travels to l their eggs there, providi the Malaysians with a ma tourist attraction and t tourists with a good reas to stay on the beach even night. The beach **Rantau Abang** is high recommended; peak seas is August. Stay at the str ing *Tanjung Jara Beach* hotel. This 10 room resort was supposedly modeled on ancient palace; it is constructed entirely wood, and rich teak paneling abound (Tanjung Jara Beach hotel; Dungun 230 Trengganu, Malaysia; 669-841-801.)

Kuantan, situated about halfway b tween Singapore and the Thai border, h very pleasant beaches and fine hotels ju out of town. The hotels also serve as good jumping-off place for day trips nearby waterfalls, craft villages, a Charah caves, known for their Buddh statuary. Visitors can pick from several i ternational hotels; the 185-room *Hya Kuantan* (800-233-1234) is especially a tractive, with landscaped gardens and full complement of activities—tenn windsurfing, canoeing, or just lounging the beach or pool.

Of all the Asian nations, the Philippin is probably richest in beaches, both

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number and diversity. Day-trippers out of Manila can hit the raucous strands between **Olongapo** and **Subic**. Or they can enjoy the more refined charms of **Cavite**, just 90 minutes from Manila; the *Puerto Azul Beach* hotel has deluxe accommodations in clusters of rooms set back slightly from the sea. Tennis, sailing, squash, and a 27-hole golf course are available.

But to experience the best that the Philippines has to offer, it helps to put the crowded capital behind you. A short island-hopping flight can bring you to **Cebu**, capital of the island of the same name; 60 miles southwest lies the exclusive *Badian Island Beach* hotel, on a lagoon surrounded by 100 acres of palms and tropical gardens.

Skin divers should try the spectacular *El Nido* resort on the island of **Palawan**. The resort's striking modern cottages are built on stilts over the water and are nestled between a beautiful beach and rugged rock faces. Nearby cliffs hold the swallows' nests famed in oriental cookery. But it is the coral-studded lagoons, couched within soaring limestone cliffs, that draw the greatest raves from visitors. The waters are clear and the underwater life abundant. (El Nido resort; Miniloc Island, El Nido, Palawan.)

Anyone who has clinched a deal in Djakarta is especially in need of respite. But in perfect counterpoint to that city's clogged and airless streets, the perennially seductive island of **Bali** is a short plane ride away. Once there, choices abound, from overwrought but inexpensive **Kuta Beach** to the more sedate pleasures of **Sanur**, with its fine shops, lagoon, and coral reef. Very comfortable lodgings can be found at the *Bali Hyatt Sanur* (800-233-1234) or *Bali Beach* hotel on Sanur beach.

For a blend of refined pleasures and vibrant street life, try the *Bali Oberoi* on **Legian Beach**. The exclusive thatch villas and cottages (75 rooms) offer the privacy of a deluxe hotel, but Kuta's hundreds of shops, bars, and restaurants are close at hand.

The newest and arguably most luxurious accommodations are available on **Nusa Dua Beach**. Less than a decade ago, this

FREQUENT TRAVELER

beach on the southern tip of the island was best known for coconuts, surfing, and scabrous village dogs. Today, it offers the posh, 450-room *Nusa Dua Beach* hotel, replete with squash and tennis courts, a gleaming fitness center, and a pleasing integration of traditional Balinese and modern architectural influences. And the surfing is still great.

Both Sanur and Nusa Dua import a bit more of Western culture than is absolutely necessary, but it's not enough to quash the local flavor. Those who are hungry for less glitz and who are traveling on a budget should try the northern beaches around **Singaraja**. Accommodations there can be a bit funky (and virtually impossible to book from the United States) and the beaches are sometimes rocky, but the pace is more tropical and the people more laid-back and approachable. In the evenings, the bay is ringed with the lanterns of local fishermen. Add the sounds of a gentle surf, a dish of fresh fruit, a fiery sunset thrown up against an approaching thunderhead—and the absence of room service seems less than critical.

For those with the energy to make just one more plane connection, the fascinating island of **Lombok** is just a 20-minute flight east of Bali. (The five-hour ferry ride across the Lombok Strait is an often tempestuous alternative.) Less developed than its heavily traveled neighbor, Lombok retains some of the old flavor of Bali, mingled with Muslim and animist traditions. (The western side of the island has greater appeal for most because of its cultural diversity, while the east is almost exclusively Muslim.) The locals like to boast that you can see Bali in Lombok, but you can't see Lombok in Bali.

Beach accommodations on Lombok had been pleasantly rustic until the recent creation of the *Senggigi Beach* hotel, which offers a white sandy beach, a stunning view of Bali across a pristine sea—and an intelligent mix of modern comforts and local

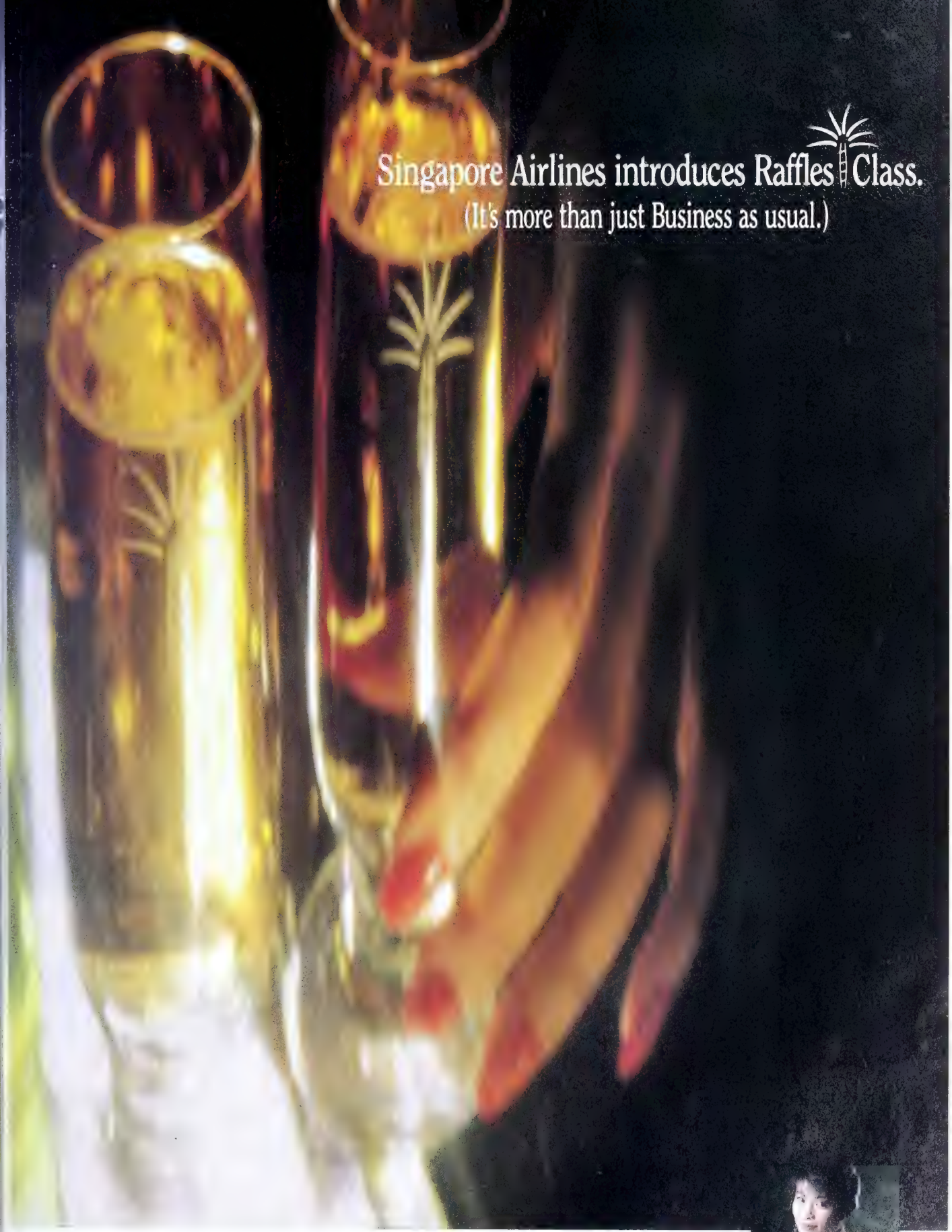
Outgoing people and natural beauty have helped rebuild Fiji's tourism industry (left); and, a short plane ride from Djakarta, Bali is the place to be for lovers of romantic beachside settings (top, right).

building materials. At some beach resor the facility seems to overwhelm t beach; at the Senggigi, the two compl ment each other splendidly.

There are other beaches on Lomb and farther out the archipelago, all t way to New Guinea, the Solomons, a into the Pacific. Most of these are hard reach from Asia, but anyone departi Australia for the United States should de initely consider a stopover. The islands **Fiji** are an easy and sensible way to bre up an otherwise exhausting trip hom and they offer some of the finest resorts the Pacific. While Fiji endured some p litical troubles a few years ago, stabili has returned and officials are going out their way to rebuild the local tourism i dustry. It should be an easy job, since t country boasts some of the world warmest and most outgoing people and natural beauty that can match any vac tion site on the planet.

Paradisiacal as Fiji is, the *Turtle Island* r sort has managed to improve on it—or, least, elaborate on it. After landing on t main island of Viti Levu, visitors are flow by seaplane to private **Turtle Island** f seven days (minimum) of swimmin snorkeling, horseback riding, fishing, win surfing, or simple sun worshiping. The r sort is exclusive in the extreme, with ju 12 airy, louvered-window, thatch-roofe huts; these are clustered, but visitors a invited to take a launch to one of the i land's 12 private beaches. A strict "coupl only" policy is enforced, which might see like a drawback for business travelers loo ing for a tropical layover. But no savvy e ecutive would be so foolish as to attempt Fijian interlude *without* his or her love. An who would want to be there alone, an way? (Turtle Holidays; 800-826-3083; Washington, 206-256-4347).

Additional resorts abound througho Asia and the Pacific. Some offer the mo luxurious amenities imaginable, some a frankly grim, and some are surprising ou posts of hospitality and taste. The fun is the exploring and discovery.



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TOUCH AND GO

THE LATEST PORTABLE CELLULAR PHONES ARE CONNECTING BUSINESS PEOPLE ON THE MOVE

One of television's most enduring gags is the sight of bumbling Secret Agent Maxwell Smart, of "Get Smart," chatting on his trusty shoe-phone. No matter how critical the situation or how remote the location, Agent 86 was always able to reach out and touch someone by simply dialing a number and talking into his wing tip.

Recent advances in portable cellular telephone technology have turned what was once a Hollywood fantasy into an increasingly important business tool. The latest generation of hand-held, go-anywhere cellular phones can provide users with full telephone service in virtually any locale—and without the bother of hopping up and down on one foot.

This revolution in mobile communications began less than a decade ago, when cellular broadcasting replaced traditional car-phone systems. The new method has become an authentic breakthrough: Instead of depending on a single, powerful radio transmitter to relay calls over an entire territory, a network of low-power broadcasting towers is substituted, each serving a small area, or "cell." Since each tower's coverage overlaps slightly with those of its neighbors, calls can be routed by computer and seamlessly "handed off" to the nearest transmitter as customers move around town. The calls are then sent to a facility for transfer to the conventional phone network, enabling roaming subscribers to reach any telephone anywhere in the world.

In operation, the result is improved performance because the distance between phone and urban tower is rarely more than a mile. Even more important, low-power localized broadcasting permits the 832 radio frequencies designated by the FCC for mobile service to be used simultaneously by many customers, dramatically increasing the number of phones that can be accommodated. (It's important to note that while cellular phones may be used freely on land or sea, they're not allowed on airliners because they are radio transceivers and may cause communications interference—Airfone in-flight units operate on a designated frequency.)

This portable telephone system has proven so successful and reliable that every major metropolis and its outlying territory—encompassing almost 80% of the U.S. population—currently enjoys coverage. And this year, operators of cellular systems will begin to link the rest of the nation through a network of rural service areas, eventually eliminating gaps in cross-country coverage.

Using a cellular phone in one of the 300 urban regions currently on-line requires signing up with a company providing cellular service, the same procedure that initiates standard home or business telephone installation. To increase consumers' options, there are usually two competing system operators in each area, and it pays to investigate both the geographical coverage and rate structure of each. All subscribers are charged a monthly access fee (which averages from $10 to $50), plus airtime for each call—incoming *and* outgoing. These are billed at per-minute rates that vary between peak (normal business hours) and off-peak times. Generally, several different service plans are available from each company to meet the needs of both light and heavy users. (To give you an idea of the expense of maintaining a cellular phone, a three-minute call in New York City, during business hours, would run $1.65, as opposed to the 25¢ public pay phone charge for a conversation of the same duration.)

But aside from the cost, as long as subscribers are in their home territory, making and receiving calls is no different from using a conventional phone. To place a call, executives away from the office simply punch in the desired number and press the "send" button; to reach someone on the road, business associates, family members, or friends just dial the phone number assigned to the unit by the system operator. Only those people to whom users have given the phone number may call. Because customers must pay for the airtime used for every call—both to and from the mobile phone (when someone places a call from one cellular phone to another, both parties are charged) —cellular phone numbers are unlisted to avoid unwanted calls and the subsequent unwanted charges.

Since basic cellular technology has been standardized throughout the nation, subscribers on the go can take advantage of an important benefit: using the phone while traveling away from their home area. While the ability to "roam" to distant cities and use a local carrier's service provides important advantages for business people, the process is usually more involved than local usage procedures.

Roaming is easiest when subscribers visit a city in which one of the cellular operating companies has a reciprocal service agreement with their own home carrier. For example, San Franciscans in New York can use their phones normally, while the same privilege applies to Big Apple residents visiting the City by the Bay. The airtime used will appear on their respective monthly statements back home, along with an added daily fee ($2 to $3) and per-minute surcharge (50¢ to 85¢) for roaming service. In cases where no reciprocity is in effect, it's important to register in advance with a carrier in the host city, which will usually arrange for calls to be charged to a major credit card. Handbooks listing full details and rates are available from most cellular phone retailers.

To be reached while out of town, subscribers must give their colleagues the "roamer access number" of the host system they'll be using in their destination. Those at home then dial the ten-digit roamer access number, just like a regular long-distance call; once the host system answers, they enter the cellular phone number and the connection is completed.

The ability to assign two or more separate numbers to a single portable phone is one of the cellular system's greatest benefits for many business travelers. More versatile than conventional multiline phones, many portables can be registered with different system operators in the same city—or even in different parts of the country—letting users determine how best to meet their needs. For example

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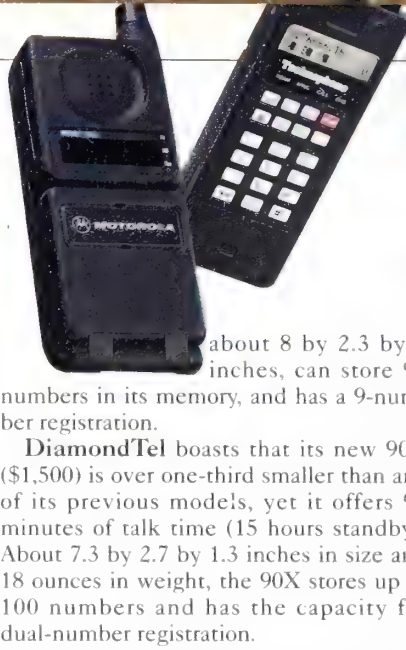
subscribers could choose to maintain separate business and personal numbers or opt for the ability to switch between the two local carriers in order to take advantage of the rates. For businesspeople who regularly travel to the same cities for extended periods, it may be economical to obtain a local number with a cellular operator in those areas and thereby avoid roaming charges.

There are three types of cellular phones available: mobile phones permanently installed in cars; "transportable" units, which come with a hefty battery pack and shoulder strap for field use; and the true portables, whose small size and weight make them ideal for pockets or briefcases. Although the car-mounted and battery-pack phones have a greater range (thanks to their larger power output), the unique advantages offered by portable phones, which can weigh just over a pound, clearly make them the instrument of choice for businesspeople on the move. For added flexibility, optional automobile adapters can boost the power of many portables, thus offering the best of both worlds.

While portables vary in size and weight, as well as in special features and the amount of talk time they offer, they all share some basics. Engineered to handle the full mobile phone radio frequency spectrum, each is powered by rechargeable batteries, has a 0.6-watt power output, LCD readout screen, tone signaling for accessing devices such as answering machines, last-number redial, microphone mute, and an antenna. They all have memory capacity for phone number storage and automatic dialing, generally with an on-screen menu display or operating guide, individual and cumulative call times, and multilevel call restriction to prevent unauthorized use (for example, barring all calls, permitting only local calls, restricting memory access, or blocking overseas calls). The following is a sampling of the most popular portable cellular telephones.

The **Audiovox** CTX-5000 (suggested list price: $1,995) offers one hour of talk time and up to eight hours of standby operation on a single battery charge. Weighing just over two pounds, it measures



about 8 by 2.3 by inches, can store numbers in its memory, and has a 9-number registration.

DiamondTel boasts that its new 90 ($1,500) is over one-third smaller than a of its previous models, yet it offers minutes of talk time (15 hours standby About 7.3 by 2.7 by 1.3 inches in size a 18 ounces in weight, the 90X stores up 100 numbers and has the capacity f dual-number registration.

If two phone numbers aren't enoug try the Portable Commander from **Fuj su** (around $899), which can handle up four. Its other vital statistics include o hour of talk time (eight hours standby enough memory for 40 numbers, a 1 ounce weight, and dimensions of 7.8 2.3 by 1.8 inches.

Radical new styling yields an impre sive size breakthrough in **Motorola**'s ne Micro T-A-C Personal Telepho ($2,495). When not in use, the hinge mouthpiece flips up over the keypad a the phone closes like a wallet to an ama ing 5.5 by 2.75 by 2.25 inches. With t standard battery, it weighs 12.3 ounc and has 75 minutes of talk time. With t slim battery, its weight is cut to 10 ounces and talk time to 30 minutes. It h storage for 120 numbers and two-syste registration.

Comparably sized—but nonfolding— **NEC**'s just-introduced P300 ($1,799 This compact, 14-ounce, 7.2-by-2.3-by- inch unit provides 80 minutes of talk tim (18 hours standby), a 99-number memo and single-number registration.

A formidable 1 hour and 38 minutes talk time (18 hours standby) is the atte tion-grabbing feature of the new **O Phones** 750 (around $1,259), which weig in at 17.3 ounces and measures 7.48 by 2 by 1.26 inches. It has a 200-number mem ry and five-system registration.

The EB-KJ3500 (around $1,300) fro **Panasonic** wraps up dual-number oper tion, memory capacity for 40 number and 70 minutes of talk time (12 hou standby) in a trim, 19-ounce, 7.9-by-2. by-1.7-inch package.

For peripatetic executives who real get around, the **Technophone** PC135 (around $900) handles not two, not fou but *eight* separate phone numbers. It giv the urban nomad 85 minutes of talk tim (12 hours standby) and 100-number sto age; it measures a 7 by 3 by 1.4 inches a weighs 19 ounces.

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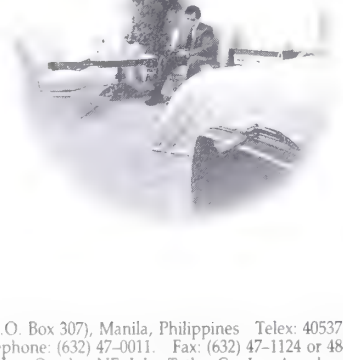

There are perhaps a dozen [illegible] in the Orient. One of them is a hotel.

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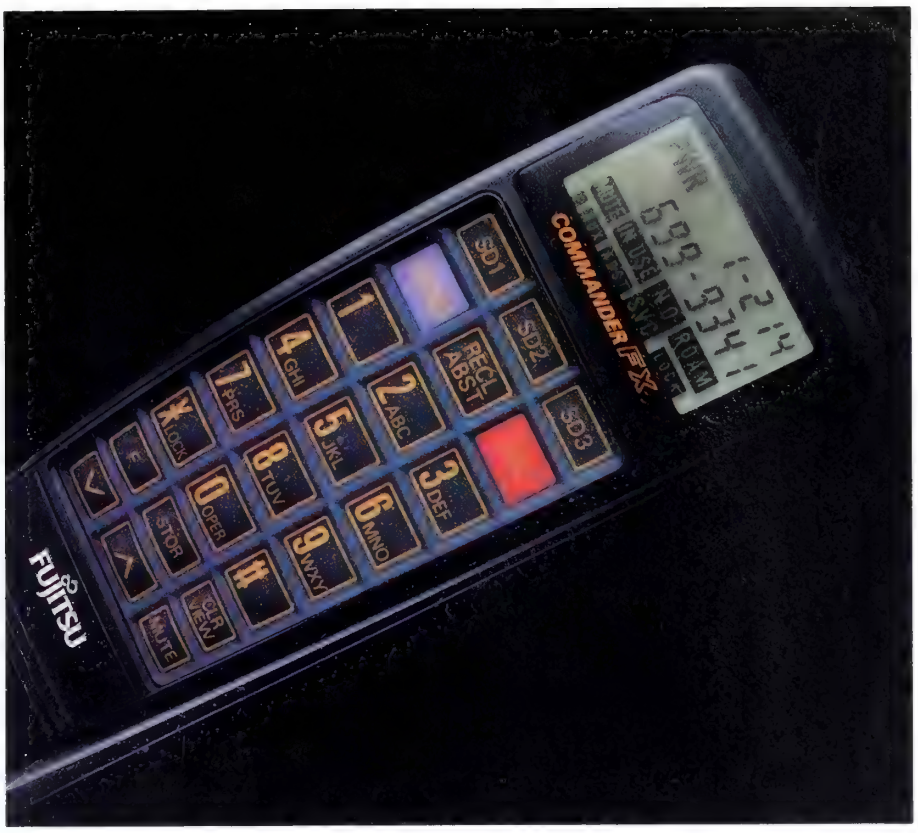

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FREQUENT TRAVELER

VACATIONING WITH FREQUENT-FLYER AWARDS

THE FACTS BENEATH THE FINE PRINT

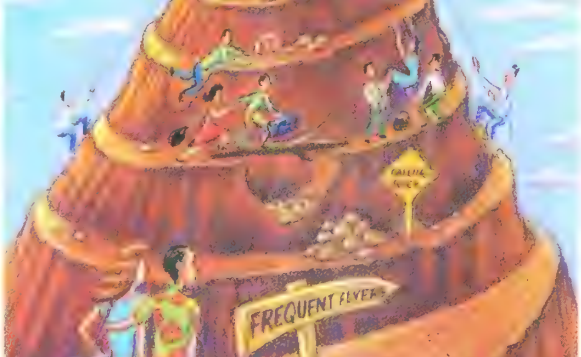

Illustration by Peter Fasolino

Planning a "free" vacation isn't quite as easy as it used to be. Travelers who've stockpiled frequent-flyer bonus mileage with the idea of taking the whole family to Bora Bora (or even California) would be wise to carefully review how best to spend it.

Mileage requirements vary widely from airline to airline, and in recent years the rules and restrictions governing free flying periods have increased enormously. Frequent flyers looking to utilize their bonus certificates will discover that there are usually only a limited number of award seats on any given flight, and that expanded numbers of blackout dates have all but eliminated the possibility of traveling during high seasons.

Furthermore, for travelers who've set their sights on a European vacation next summer and wish to use frequent-flyer or frequent-hotel-stay points to pay for (or defray) the cost —there's no time like the present. Seating on overseas partner airlines is very often limited, as are many of the rental cars reserved by companies for frequent-flyer programs. (Those who attempt to rent a car at a location outside a major airport or the city it serves will have better luck.) The best advice at this point is to plan thoroughly, be prepared to be flexible, and act quickly. The following practical tips were compiled to direct flyers through the foggy restrictions regulating the use of frequent-flyer awards.

•Those who are unable to reserve flights or hotel rooms for their preferred travel dates on the first try shouldn't despair. That which may not be available today may become available tomorrow, as the result of a cancellation. And sometimes the airlines allot additional award seats closer to flight time. It's wise to call back daily to check. For members of an elite-level frequent-flyer or hotel-stay program, it's often possible to be wait-listed.

•Flights other than nonstops are more widely available. Travelers should press a reservationist to try routing through an airline's hub, where the chances of getting space are greater.

•Free award and vacation travel arrangements are easier to come by in the middle of the week, since most people prefer a Friday or Saturday departure. Vacationing from midweek to midweek (leaving anytime between Sunday and Thursday) means avoiding a lot of the competition.

•For a better chance at obtaining a flight, travelers should consider starting their European award vacation in a city other than Paris or London. Brussels and Amsterdam, for example, see a lot less air traffic. Similarly, flyers may also want to backtrack in terms of their departure location; if a New York-to-London jaunt is booked solid, perhaps leaving from Chicago or Atlanta could save the vacation.

•Late afternoon is the best time to contact an award service center. Better yet, most frequent-flyer programs allow members to fax their award requests.

•Frequent travelers can't expect to employ hotel awards overseas—they are rarely accepted. So save those points and redeem awards for air-only use, then take advantage of hotel promotions.

•Business class is the way to fly. T service normally is as good as in fi class, and there are a lot more sea available for frequent flyers in th section of the plane.

•Those who don't have enou points in their mileage program take a companion along complete free should transfer their award that companion, then purchase th paid ticket in their own name. Th way, the frequent flyer will accum late valuable mileage from flying or revenue ticket.

•Avoiding high-traffic periods is al recommended: The best time schedule travel in Europe is from la January through June; in Hawa from mid-January through mi March, mid-April through May, a September through mid-Decembe in the South Pacific, mid-Februa through June and mid-October throu November; in the Caribbean, mid-Ap through May and mid-September throu mid-November.

•Allowing some flexibility in terms travel dates only increases the odds of su cess. Having a second and third choice mind when attempting to reserve a spot advisable.

•The time limit given to program mem bers concerning when they must comple ticketing is ironclad; those who don abide by those regulations will lose out.

•Similarly, the method of payment (there is any money to be exchanged) is critical point; some awards programs hon credit cards and others do not. Travele who wait until they reach the airport to i quire about this matter may as well wav good-bye to the other passengers.

•Lastly, it's important for travelers know that their "free" tickets are not i sured. The airline will not replace a lost stolen voucher. The Diners Club ca does insure members who are traveling free awards. For information on financi and medical services abroad, there's a fr consumers' guide available through Trav Assistance International (800-821-2828).

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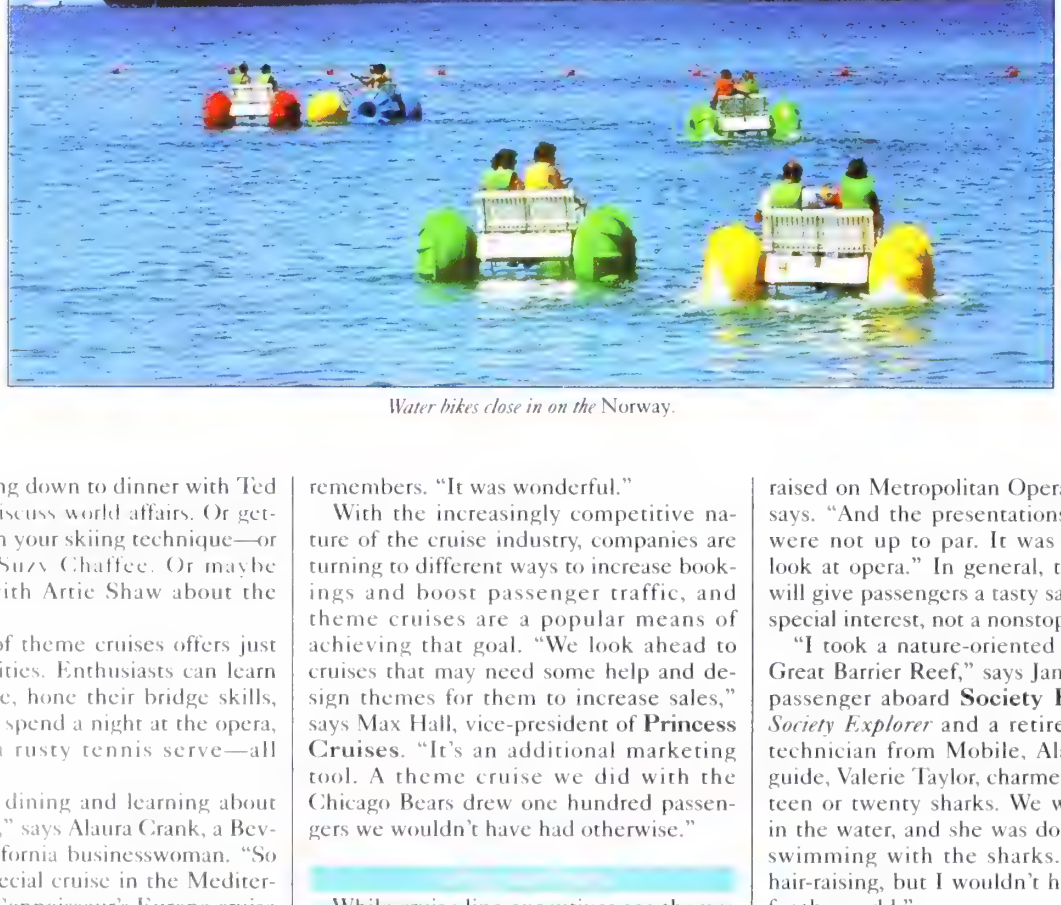
FREQUENT TRAVELER

SET SAIL ON A THEME CRUISE

FROM GOLF TO SKIN CARE— ANCHORS AWAY WITH EXPERTS ABOARD



Water bikes close in on the Norway.

Imagine sitting down to dinner with Ted Koppel to discuss world affairs. Or getting pointers on your skiing technique—or attire—from Suzy Chaffee. Or maybe reminiscing with Artie Shaw about the big-band era.

The world of theme cruises offers just such opportunities. Enthusiasts can learn a new language, hone their bridge skills, get into shape, spend a night at the opera, even polish a rusty tennis serve—all aboard ship.

"I love fine dining and learning about different foods," says Alaura Crank, a Beverly Hills, California businesswoman. "So I went on a special cruise in the Mediterranean." The Connoisseur's Europe cruise took Crank on a **Royal Viking Line** excursion to Barcelona, Málaga, and the Bordeaux region of France, focusing on the cuisines of each area. "We ate in wonderful châteaus and in tiny French villages, and a Swiss chef came on board to give a lecture and a cooking demonstration," she remembers. "It was wonderful."

With the increasingly competitive nature of the cruise industry, companies are turning to different ways to increase bookings and boost passenger traffic, and theme cruises are a popular means of achieving that goal. "We look ahead to cruises that may need some help and design themes for them to increase sales," says Max Hall, vice-president of **Princess Cruises**. "It's an additional marketing tool. A theme cruise we did with the Chicago Bears drew one hundred passengers we wouldn't have had otherwise."

While cruise line executives see themes as a way to fill cabins, passengers often find they get added value for their cruise dollar. Theme cruises address almost any interest, but a word of caution: Don't expect too much. Marian Grace of San Francisco took an opera cruise, also on Royal Viking Line, and was disappointed. "I was raised on Metropolitan Opera music," sh says. "And the presentations on the sh were not up to par. It was a superfici look at opera." In general, theme cruis will give passengers a tasty sample of the special interest, not a nonstop banquet.

"I took a nature-oriented cruise to th Great Barrier Reef," says Jane Richards, passenger aboard **Society Expedition** *Society Explorer* and a retired laborato technician from Mobile, Alabama. "O guide, Valerie Taylor, charmed about nin teen or twenty sharks. We were all the in the water, and she was down below u swimming with the sharks. It was a b hair-raising, but I wouldn't have missed for the world."

While most theme cruises (perhap thankfully) don't include swimming wi sharks, many are centered around sportin activities and fitness. **Royal Caribbea Cruise Lines'** (RCCL) Golf Ahoy! pr gram lets participants play on suc Caribbean links as Sandy Lane on Barb

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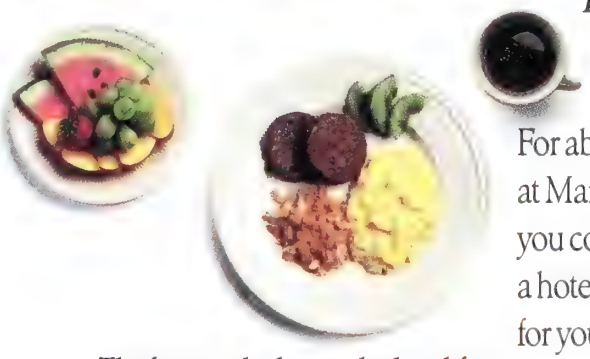

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dos, Mullet Bay on St. Martin, and Mahogany Run on St. Thomas. RCCL is the official cruise line of the Professional Golfers' Association of America, and cruises include driving competitions off the stern of the ship and access to PGA magazines, books, and films.

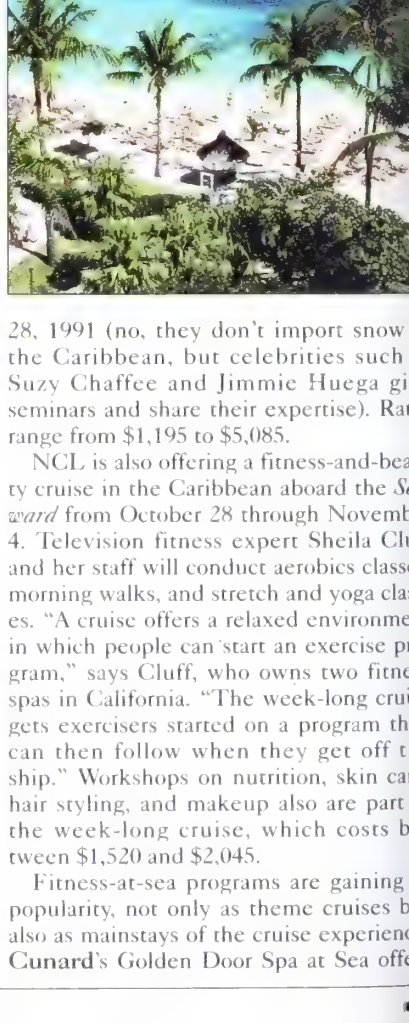
Year-round, seven-night itineraries on the *Song of Norway* included five possible days of golf. Eight-night itineraries on the *Nordic Prince* in November and December include three possible days of golf; ten-night itineraries offer five.

During the fall, the *Nordic Prince* sails on seven-night voyages between New York and Bermuda, and golfing passengers can choose from five Bermuda courses, including Port Royal and St. George's, both designed by Robert Trent Jones, Sr. RCCL fares range from $1,060 to $2,765 for seven-night cruises and $1,660 to $4,085 for ten-night itineraries. Greens fees are additional and range from $33 to $78. (The prices quoted above are per person, double occupancy.)

Norwegian Cruise Line (NCL) has golf programs, as well as tennis cruises, in the Caribbean. The Pro-Am Golf cruise on the *Norway*, March 2 through 9, includes play at Mahogany Run on St. Thomas and Mullett Bay on St. Martin, as well as onboard clinics and golf parties with celebrity players. The Pro-Am Tennis cruise, on the *Seaward* from March 24 through 31, will include tennis clinics, parties, and tips from pros. Rates range from $1,250 to $2,550 for the tennis cruises, $1,345 to $5,495 for the golf.

Society Expeditions' Society Explorer *takes its guests to meet the citizens of South Georgia Island (right); and Holland America's MS* Noordam *offers the best in big-band entertainment (below).*

NCL has Caribbean cruises centered around all manner of sports. Such legendary athletes as basketball's Oscar Robertson, football's Larry Csonka, and race driver Bobby Allison participate in cruise activities, give lectures, and talk sports with their oceangoing fans. Upcoming week-long sport cruises in the Caribbean include baseball cruises on the *Seaward*, beginning November 4 and a ski cruise on the *Starward* leaving September



28, 1991 (no, they don't import snow the Caribbean, but celebrities such Suzy Chaffee and Jimmie Huega gi seminars and share their expertise). Ra range from $1,195 to $5,085.

NCL is also offering a fitness-and-bea ty cruise in the Caribbean aboard the *S ward* from October 28 through Novemb 4. Television fitness expert Sheila Cl and her staff will conduct aerobics class morning walks, and stretch and yoga cla es. "A cruise offers a relaxed environme in which people can start an exercise p gram," says Cluff, who owns two fitne spas in California. "The week-long cru gets exercisers started on a program th can then follow when they get off t ship." Workshops on nutrition, skin ca hair styling, and makeup also are part the week-long cruise, which costs b tween $1,520 and $2,045.

Fitness-at-sea programs are gaining popularity, not only as theme cruises b also as mainstays of the cruise experienc **Cunard**'s Golden Door Spa at Sea offe

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seagoing versions of the posh California resort aboard *Queen Elizabeth 2*, *Sagafjord*, *Vistafjord*, and both *Sea Goddess* ships. And **Carnival**'s new ship, *Fantasy*, has a 12,000-square-foot fitness center.

Upcoming Princess theme cruises this season include a ten-day excursion along the Mexican Riviera on the *Dawn Princess*, departing December 11 and featuring former baseball stars Bucky Dent and Joe Morgan (from $1,495 to $3,515) and Romance on the High Seas, a ten-day Polynesian cruise hosted by well-known authors of romance novels (from $2,190 to $5,030).

"There's no question that celebrities are a big draw on cruises," says Hall. "We've had Ted Koppel on our ships three times, and the passengers love him. But other themes can draw large crowds as well; big-band cruises are very popular."

LOADED DECKS

Woody Herman's Thundering Herd will entertain passengers aboard a ten-day transatlantic cruise to Fort Lauderdale on the *Royal Princess*, departing October 31 from Barcelona. Concerts, dance lessons, and contests are all part of the program. Fares range from $2,840 to $7,290.

This fall **Holland America Line** will feature big-name performers as part of its Celebrity All-Star Big Band Salute, a series of ten-day cruises on the MS *Noordam* in the Caribbean. Roger James and his 16-piece orchestra will provide the music, and each cruise will highlight a major performer. Patty Andrews of the Andrews Sisters will be on board for sailings October 23 and December 2; Don Cornell will be on the November 2 and December 12 cruises; and Helen O'Connell will be the featured performer on sailings November 12 and November 22. Rates begin at $1,419.

Through October, jazz as well as the big-band sound will be heard each week on the *Royal Viking Star*'s Bermuda cruises, as well as on selected sailings of the *Royal Viking Sun*, *Royal Viking Sea*, and *Ro Viking Sky* to Alaska and across the Atlan and Pacific. Rates begin at $1,295 for a day Bermuda cruise, $2,980 for an 11-d Alaska cruise.

Royal Cruise Lines' Pacific Hawai Odyssey cruise aboard the *Crown Odys* will feature a salute to Jimmy Dorsey an eight-day voyage through the islan from February 6 through 12. Fares be at $2,548.

Almost every ship afloat has an ongo program for bridge players. One upcom excursion on Royal Cruise Lines' *Cro Odyssey*—one of **Rovere**'s Contract Cru es—departs Barbados November 11 fo 14-day cruise through the Panama Can Prices begin at $3,198.

CONTRACT BRIDGE

Other Rovere cruises include sailin next summer to Alaska aboard t *Sagafjord* that begin at around $3,000.

And for photographers, Society Expe tions offers cruises to northern Austra and New Guinea's Asmat (to study aboriginal cultures), beginning Octo 20. Cruises are aboard the line's small, plorer class ships, which allow passeng to work closely with expert photographe The photography expeditions last from to 21 days and begin at $5,550.

There's virtually no end to the list theme cruise offerings. Those curren thinking of taking a cruise should consi finding a theme that interests the They'll most likely double the value th receive for their money—and very po bly their fun.

For all cruises, except those mentio below, contact a travel agent who i member of the National Association Cruise Only Agents (NACOA) for bo ings. Sheila Cluff's fitness cruise may booked through Spa-Finders at 800-AI SPAS; in New York, 212-475-1000. For Rovere Contract Bridge cruises, call 8 551-1000; in California, 800-451-8572.

Relaxation can be the order of the day aboard Cunard's Sea Goddess.

GETTING INTO THE BIG GAMES

FROM THE BOWLS TO THE OPENS, HERE'S AN INSIDER'S GUIDE TO BUYING TICKETS TO THE GREAT SPORTING EVENTS

Watching sports on television is nice, but the true fan believes there's noth- g like being there. Unfortunately, the ore popular the sports event, the more ople there are willing to pay to see it. Who do you know? How much are you lling to pay? These are the twin ques- ns that can make the hunt for many a igh sports ticket a depressing one. And nerally, season ticket holders get the st shot at play-off or championship ents in their sports.

Does this mean the hapless fan is con- ned to the not-so-tender mercy of a ket scalper? It's legal in many states. In lifornia, for instance, people can sell kets for whatever the market will bear, long as they're over 100 yards from the unds of the event. But buying tickets m a scalper can be a descent into the r life—very often with high stakes.

Advance planning makes getting into en the most popular sporting events ier. (Because we're covering a com- te calendar of events, it may be too late use the information for the current sea- , but give it a try next year.) So here's v to score tickets. And if all else fails, a e cash goes a long way.

The **1991 Super Bowl** will be held in npa Stadium on January 27, 1991, and vill be one of the toughest tickets de- e 74,000 seats and stiff ticket prices. e Super Bowl has become a national of passage to a hundred million Amer- ns. The televised spectacle proves awe- ne even to the millions of Chinese who ch it weeks after the event. The Super vl was made for TV, but actually being re adds inestimable cachet.

The NFL gives rabid fans a chance by ding an annual lottery that awards win- s the right to purchase a pair of tickets. ne 500 pairs are up for grabs. But the wing is held in July, when all the hype hyperbole have ended, keeping en- s down to a paltry 20,000 or so. To en- send in a postcard between February 1 and June 1. The address is NFL Super Bowl Tickets; 410 Park Ave.; New York, NY 10022.

A more expensive, but slightly more surefire way of getting to the 1991 Super Bowl is by being a season ticket holder for an NFL team. The two competing teams each get about 20% of the allotment of Super Bowl tickets, while the host team gets 10% of the seats.

Even the clubs that don't make the play-offs get an allotment of Super Bowl tickets, and season ticket holders occasionally have been able to buy some through mini-lotteries. But for those who don't win the lottery, don't hold season tickets, and aren't pals with players, coaches, or moguls, a ticket broker is the way to go.

TALK TO MURRAY

One of the largest is Murray's Tickets of Los Angeles, in business since 1937, which handles many sports and concert events. Other agencies offer similar packages, but an NFL spokesperson gave the outfit the highest accolade when he described Murray's as "a thorn in our side." Face value per ticket for the 1990 Super Bowl in New Orleans was $125, but face value means little to brokers, who sold tickets for well over $750. They claim their ticket cost is more like $600 than $125. Contact Murray's; 740 West Martin Luther King Blvd.; Los Angeles, CA 90037; 800-33-EVENT; they express mail tickets to customers.

For the 1990 game, Murray's offered a Super Bowl Package for about $2,000 a person, which included three days and four nights at a hotel, a Super Bowl Brunch, and a tour guide. Jerry Adelman, one of Murray's owners, says their 1991 Super Bowl packages run from $1,349 to $1,699, because of more reasonably priced accommodations in Tampa. He says, "We're not charging for the ticket but for the services involved in getting the ticket."

Even with the Super Bowl, though, you might actually get lucky outside the stadium on game day. At the 1990 Super Bowl in New Orleans, tickets were actually going for face value on game day.

A pro football "bargain" is the **NFL Pro Bowl**. The Pro Bowl is an All-Star game in which the top players in the league "compete." Scheduled for February 3, 1991, at Aloha Stadium in Honolulu, the 50,113 seats for the game will cost around $15.

Tickets do sell out, and getting an airline reservation for travel to Hawaii at that time of year can be tough, so early reservations and ticket purchase is recommended. Write to the NFL (410 Park Ave.; New York, NY 10022) or to the Pro Bowl (NFL Pro Bowl; Aloha Stadium; Box 30666; Honolulu, HI 96820-0666).

A baseball representative said, "Getting tickets is hard but not impossible" for the National and American Leagues Championship Series, the World Series, and the All-Star Game. Both the Play-Offs and the World Series now go from a minimum of four to a maximum of seven games. With most stadiums holding well over 40,000, the numerical odds of getting a ticket for any of those are far better than for the Super Bowl.

The **League Play-Offs** start Thursday, October 4, for the National League, and Saturday, October 6, for the American League. Play-Off and **World Series** tickets are sold by the home teams, not by the leagues.

As usual, players, officials, and season ticket holders get the best shot at Play-Off tickets. Since who will get to the Play-Offs often is not decided until the end of the season in October, several teams may print Play-Off tickets, and fans should immediately purchase tickets through Ticketmaster or Ticketron if they are made available this way. More often, the individual contending teams will have a mail lottery that gives fans the right to purchase available seats.

FREQUENT TRAVELER

The 1990 All-Star Game was held at Wrigley Field in Chicago last July 10—a night game for venerable Wrigley, the last holdout of daylight baseball. The **1991 All-Star Game** will be held in Toronto in July, and ticket information will be available through the Blue Jays early in 1991.

Pro basketball's toughest tickets are for the **National Basketball Association Play-Offs, Finals**, and **All-Star Game.** The NBA All-Star Weekend might just be the most fun of the All-Star affairs. The weekend features the Slam Dunk Contest for the most artistic jam, the Long Range Shootout, and the nostalgic Legends Game, when aging stars of bygone years tug on uniforms and play each other for pride. The weekend ends on Sunday, when the current stars of the East and West compete in a traditionally high-scoring, no-defense, all-star celebration.

The **NBA 1991 All-Star Weekend** will be held in the Charlotte Coliseum in North Carolina, from February 8 to 10, with the All-Star Game on February 10. While the arena holds 23,000, players, coaches, teams, media, and the league get many of the tickets. There was no public sale of the tickets (at $50 apiece) for the 1990 game in Miami, but season ticket holders were given a chance to buy tickets by lottery. In Houston in 1989, some game seats were sold locally by Ticketmaster, so ticket policies vary. Contact the Charlotte Coliseum for more information.

All NBA Play-Offs and Finals tickets are available through the two competing teams' arenas and are sold according to local policy. As ever, season ticket holders get first crack. For the remaining (usually inferior) seats, either a lottery or a first-come, first-served system is employed.

Tickets for the NBA Finals vary in price from city to city. In 1990, tickets for the Pistons–Trail Blazers matchup ranged from around $20 to $100 per person. Pairs of seats at courtside can cost over $600 per game! To get Finals tickets, brokers and advertisements in newspapers are once again the last resort.

The **NCAA Final Four** college basketball tournament is a very tough ticket indeed. Like the NFL, the NCAA has a complicated formula for ticket distribution. There is an effort to make tickets available to the public on a national basis, but the demand far outstrips the supply.

It varies, but some 33% of the seats at the arena where the finals are held is made available to the general public. The remaining tickets are split among the Final Four teams, the NCAA, the host institution, the media, corporate sponsors, and the National Association of Basketball Coaches. Obviously, knowing someone helps.

The 1991 NCAA Men's Basketball Semifinals and Finals will be held at the Hoosier Dome in Indianapolis. The Semis take place March 30, while April 1 is the date set for the Finals. Ticket prices are $60, $40, and $25, and the arena's capacity is a spacious 37,500. The 1992 Final will take place in Minneapolis at the Hubert H. Humphrey Metrodome.

To have a shot at getting the tickets reserved for the general public, applications are available by writing the NCAA *a year in advance*. In 1990, there were about 90,000 requests for one or two tickets each, but only 5,000 seats were available. Each person may apply for two tickets.

Applications go to the public in early March, and fans must send them in, along with personal checks or money orders,

from March 1 to April 30. Requests for applications should be sent to the NCAA; 6201 Overland Blvd.; Overland Park, KS 66211. When all applications are processed, people are selected randomly. By the end of June, participants either get refunds or tickets.

Then there are the ticket brokers, who get their tickets by advertising in student and local newspapers. Some travel agents and brokers put together travel packages for the NCAAs as well.

Tickets for the **NCAA Regionals** are sold through the regional sites and coordinated by the host institution. In 1991, Rutgers will host the Eastern Regionals at the New Jersey Meadowlands (201-935-3900) on March 22 and 24. University of North Carolina at Charlotte will host the Southeast Regionals at the Charlotte Coliseum (704-357-4738) on March 21 and 23.The University of Detroit will host the Midwest Regionals at the Pontiac Silverdome (313-858-7358) on March 22 and 24, and the University of Washington will host the Western Regionals at the Seattle Kingdome (206-296-3663) on March 21 and 23.

The 1992 Regionals will take place in Philadelphia, with Temple hosting; in Lexington, with Kentucky hosting; in Albuquerque, with the University of N Mexico as host; and in Kansas City, w the Big Eight Conference as host. Tic information for the Regionals will available from those institutions.

A popular regional football favorite t pits the West against the Midwest is **Rose Bowl**, held on New Year's Da Pasadena, California. Sponsored by Tournament of Roses, this scenic b features the Rose Queen and her co the Parade of Roses and its invent floats, as well as bruising football action

The game is a contractual sellout tween the Big Ten and Pac 10 Conf ences, with season ticket holders, s dents, and alumni of both schools hav priority. But 3,500 end-zone seats are m available to the public in a drawing which postcards are accepted Septembe to October 1. To give it a shot, send many postcards as possible to Rose B Ticket Drawing; Box 91386; Pasadena, 91109, with your name, address, a phone number. Those winning the righ buy tickets are notified by October 15.

All 1991 Rose Bowl tickets are $42. lotments to member schools may sold—if USC makes it, UCLA fans us ly won't go, and if Michigan makes Ohio State fans may skip it. So these t ets might be available.

Rose Bowl tours are advertised in st where selling tickets over face value is a crime. Travel agencies and ticket b kers can help get the fervent fan a t et—at whatever the market will bear.

In tennis, the **1991 Wimbled Championships** will be contested dur June and July in London. For those w want to take a shot at buying tickets the upcoming matches and prefer to m their own travel arrangements, Wimb don has a computerized lottery syste Requests for applications are accep September 1 through December 31, the ticket drawing is held in March, w winners receiving the right to purch two tickets for one day's play. Tic prices run about $40 each. Centre Cour Wimbledon seats about 12,000, and alm all seats have a good view.

The address for applications for matches is: Secretary; All England La Tennis Club; Box 98; Wimbledon, L don SW 19 5AB England.

Another option is to get a tour pack from Keith Prowse & Co., the only offi overseas tour operator appointed by All England Lawn Tennis Club. Prov packages, some of which include reserv seats for Centre and Number One cou range from $85 for one night's accomm dations and one day at Wimbledon, t Men's Final package for over $2,000. T latter includes perks like theater tick but does not include airfare. The com ny books Wimbledon tours beginning October, but most tours are sold out

Illustrations by Paulette Bogan

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FREQUENT TRAVELER

spring. Prowse can be contacted at 800-669-8687; in New York, 212-398-1430.

Another tough ticket is the **U.S. Open Tennis Championships**, which were just held in New York City from August 26 to September 8. There's a waiting list of over two years for finals tickets, and it's rumored that even when ticket holders retire to the great court in the sky, tickets are eagerly snapped up by their heirs.

But individual sessions up to the quarterfinals are generally available. Best tickets go first, by mail or by phone through Ticketron or the box office. Tickets for matches at the 19,500 seat U.S.T.A. National Tennis Center's Stadium Court range from $12 to $40, depending on the day and session. To get a ticket brochure, write in April or May to Ticket Office; U.S.T.A. National Tennis Center; Flushing Meadow-Corona Park; Flushing, NY 11368; 718-271-5100. Send a letter or call to get on the finals waiting list.

The **1991 U.S. Open Golf Championship** will be held June 10 through 16, 1991, at Hazeltine National Golf Club in Chaska, Minnesota. Season tickets went on sale last June for $175. This seven-day ticket, for Monday through Sunday, includes three practice rounds and four championship days, plus parking. For information, call 612-448-1991.

It's reassuring that there is at least one big-time sporting event where plenty of tickets are available. That's the **Indianapolis 500**, held at the 235,000-seat Indianapolis Motor Speedway on the Sunday preceding Memorial Day. Ticket prices range from $18 to $100 for reserved seats, while general admission, where one brings a lawn chair or blanket, is available on race day for $15. Tickets for qualifying runs are just $5.

Although it's getting a bit late to order seats for the 1991 Indy 500 race, it's still worth a try. Orders for the next year are accepted the day after each race. Send letters to Indianapolis Motor Speedway Ticket Office; Box 24152; Speedway, 46224, and ask for an order form, wh comes with a map of the track and gra stands. Each customer should specify seating choices. For tickets, send paym in full, by cashier's check or money or One should also book flights and ho promptly.

The top race in the sport of kings is **Kentucky Derby**. The Run for the Ro is held at Churchill Downs the first Sa day in May, with 51,500 seats on six le available. The grandstand terrace mezzanine are bleacher-type seats and 1990 cost from $39 to $60. First-floor cl house box seats were $77, while the ec omy-minded squeezed in with general mission, sold on the day of race. It ne sells out, but it's wall-to-wall people $30 for the clubhouse and $20 for the field and grandstand.

For higher rollers, the Eclipse Ro two-day race package went for $400 season, while the most expensive seats always on the Turf Terrace. These co whopping $661 per indoor seat or $3, for a table for six on the terrace in stretch. Naturally, a champagne toast a buffet are included.

To get tickets, send a request, includ name, mailing address, and type number of seats, to Kentucky De Ticket Office; Harriet Howard, Coordi tor of Special Events; Churchill Dow 700 Central Ave.; Louisville, KY 402 They receive 7,000 to 10,000 reques year, and there is a waiting list for seats.

Frankly, sometimes ticket brokers travel packages are the only way to seats. In addition to Murray's and Ke Prowse, Ticket Time, based in South California, also can deliver. They can reached at 800-233-3330.

Once your hard-earned ticket is hand, it can be fun to watch the free-m ket spectacle of scalpers in action, the mate unsportsmanlike expression of law of supply and demand. Good lu and enjoy the games.

Commentary/by John Hoerr

WITH JOB TRAINING, A LITTLE DAB WON'T DO YA

At an electronics plant outside New York City, stockroom workers could easily cause havoc for their company by losing track of some 20,000 different parts used to manufacture radio frequency connectors. They must feed accurate data into a computerized system that orders new parts and schedules production. Yet a study of this plant shows that new stock handlers receive only informal, hit-or-miss job training—in some cases, from other employees who are little more than novices themselves.

Top management of the electronics company—which is not identified in the study—wanted the workers to be trained but made no provision to ensure it. The study's authors, Sylvia Scribner and Patricia Sachs of the Laboratory for Cognitive Studies of Work at City University of New York, spent a month and a half in the plant. During that time, the workers were given no systematic understanding of what they were supposed to do. No disasters occurred, but that was only because of good luck and the workers' willingness to teach themselves by trial and error.

This story is typical of what really happens under the rubric of "employee training" in most U. S. companies: Frontline workers in factories, stores, and offices receive little or none of it. One national survey showed that companies gave twice as much training to managers and administrators as they did to machine operators (table). And the Commission on the Skills of the American Workforce—a private group with business, labor, and academic members—estimates that as little as 10% of all company training expenditure goes to blue-collar programs.

TOOLS AND TEAMS. Just as disturbing, it's becoming clear that companies may be wasting much of the job training they do engage in. For example, a company can't improve product quality on a plant-wide basis through one-shot training programs aimed at only a few critical jobs. "The whole work force must be trained, and it must be continuous training, not a little splat here and there, like an injection," says Sue E. Berryman, director of the New York-based National Center on Education & Employment (NCEE), which funded the Scribner-Sachs study.

Studies by other researchers also show that workers can't be adequately trained unless companies first understand how people actually perform work, acquire skills, and learn to solve problems on the job. Most corporate trainers wrongly adopt classroom forms of learning that emphasize theory, abstract symbols, and competition among individual students, says Lauren B. Resnick, director of the University of Pittsburgh's Learning Research & Development Center. On the job, however, people must learn to use tools and work together in groups and teams. "The training of workers has to be engaged with physical material, real actions, and the social complexity of the workplace," Resnick says. Adds Berryman: "Sitting passively in a classroom is one of the least effective ways of learning."

Advances in technology are divorcing the work situation even further from the classroom. One study shows that radiologists on the job use totally different methods of interpreting X-rays than they were taught in medical courses. Extensive training in electronics imparts few skills actually used in performing electronic troubleshooting, according to another study.

But merely emphasizing on-the-job training isn't enough, either. Traditional concepts of apprenticeship are ill-suited to many of today's workplaces. In the past, an apprentice tailor learned his trade by watching a master sew a coat and copying what he did. But that's no longer possible in much of industry today. Airplane maintenance trainees, for example, can't learn how to diagnose equipment failures by merely watching an expert: So many things can go wrong with an engine that it's impossible to learn the full range of problems they will encounter as mechanics. Furthermore, the technology and materials used in today's workplaces are often too dangerous or expensive to be exposed to a trainee on a trial-and-error basis.

A GOOD MIX. Yet, there must be a bridge between theoretical learning and actual practice. Resnick suggests the use of simulated workplaces and even simulated "social interactions," both in vocational schools—where the practice is not common—and in company training classes.

Too many companies also focus training on very narrow skills, failing to see that new technology increasingly demands all-around troubleshooters. In advanced manufacturing plants, a production worker must actually manage a network of robots and other computer-controlled machines instead of performing a few repetitive tasks on an assembly line. Increasingly, employees must be able to recognize and deal with breakdowns of all sorts—machine failures, computer glitches, and even a breakdown in communications between workers. What's needed is a mix of academic and vocational training to enable workers to perform specific jobs and also handle atypical problems.

It's time to put aside the traditional distinction between work and learning. "The old idea," says NCEE's Berryman, "was that the schools cooked you until you were done, and then you went to work. Now, you've got to be constantly cooking." If companies want to be continuously innovative to meet competition, they must engage in continuous, career-long training of all employees.

JOB TRAINING GOES MAINLY TO MANAGERS AND PROFESSIONALS

Job category	Men*	Women*
Professional & technical workers	61.7%	63.8%
Managers & administrators	49.8	49.9
Sales supervisors, representatives & clerks	40.7	29.1
Trade & craft workers	38.9	31.1
Office & clerical workers	37.5	33.5
Machine operators & assemblers	26.6	19.5
Transportation workers	16.9	44.9

* Percent of workers who reported being trained by current employer

DATA: HONG W. TAN, RAND CORP.; CURRENT POPULATION SURVEY, JANUARY, 1983

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MIGHTY MITSUBISHI I

ITS HUNDREDS OF INTERDEPENDENT COMPANIES ARE BUILDING AN EMPIRE

Perched atop the 11-story Mitsubishi Building in Tokyo's central Marunouchi district sits an elegant restaurant-bar. Here, as in other elite nightspots around town, captains of industry and finance gather to lubricate the personal relationships so essential to doing business in Japan. The only difference is that this is the Mitsubishi Club, and to join you must rank as a board director at a Mitsubishi company.

On any given night, more than 30 executives from the corporate clan congregate here to socialize with colleagues who share the tradition and ethos of Japan's largest industrial group, or *keiretsu*. Most can stroll over from offices in Marunouchi, often dubbed Mitsubishi Village, where their headquarters are clustered. Drinking beer from Kirin Brewery, a group member, they gather less to cut deals than to swap ideas and information, offer moral support, and build trust. One day, it is assumed, there will be a tangible payoff.

'MITSUBISHI-FICATION.' This support network is helping to turn Mitsubishi, Japan's biggest group with total sales of $175 billion, into an international dynamo. During the past year, the name Mitsubishi has appeared on more prominent international deals than that of any other Japanese group. In most cases, these moves have been made by individual Mitsubishi companies. But many of the forays rely on backing from sister companies, and the number of joint projects is rising. "What's emerging," observes Hiroshi Okumura, a professor at Kyoto's Ryukoku University and an authority on *keiretsu*, "is the Mitsubishi-fication of the world."

Well, not quite. But the drumbeat of deals that started last year shows no sign of slowing. The biggest splash was made by Mitsubishi Estate Co., which announced last October that it would buy 51% of Rockefeller Center for $850 million. Then, in July, it quietly picked up an additional 6.6% of the landmark for $110 million. Last January, trading giant Mitsubishi Corp. bought control of Aristech Chemical Corp. for $877 million and, also in July, sold pieces of the Pittsburgh-based chemical company to four sister companies.

Moving with breathtaking speed, Mitsubishi companies have bought most of Verbatim from Eastman Kodak for $200 million, won a $400 million power-plant deal in Virginia, launched a $150 million futures-trading joint venture in Chicago, bought a San Francisco-based oil company for $75 million, and invested $100 million in a firm run by William E. Simon. Most recently, Mitsubishi Trust & Banking was the main lender in the $940 million purchase of famed Pebble Beach golf course in California (page 124).

THE COORDINATOR: CHAIRMAN MIMURA HELPS KEEP THE GEARS MESHING

The Mitsubishi group's flirtation with Germany's Daimler-Benz also could be getting serious. Frustrated by their alliances with such U.S. companies as Chrysler, General Dynamics, Westinghouse, and Monsanto, four key Mitsubishi companies electrified the world in March by meeting in Singapore with top brass from Daimler-Benz to discuss a potentially huge array of tie-ups. Now, Daimler Chief Executive Edzard Reuter plans to take a top-level team to Tokyo in mid-September for a second round of talks that could lead Germany and Japan's two largest business groups into joint ventures ranging from building a car plant in the Soviet Union to designing hypersonic planes able to fly in space.

Aside from its suddenly aggressive international push, the Mitsubishi group is moving beyond its heavy-industry base to churn out an increasingly visible stream of products, branded with a three-diam logo derived from the crest of the found samurai family. Mitsubishi Motors is g ing market share around the world for cars and trucks; Mitsubishi Electric is s ing with big-screen televisions, stadium screens, and mobile phones; and Mitsub Heavy Industries is pushing everyth from room air conditioners to rockets. er affiliates are putting the three diamo on consumer products ranging from cr cards to cans of tuna. In many of th product areas, a single Mitsub company or several companies gether straddle the entire "f chain"—from extraction of materials to delivering a finis product to consumers.

AUDACIOUS MOVES. As the gi stirs, it is becoming increasin bold. The merger of Mitsub Metal Corp. and Mitsubishi Min & Cement Co. in April sent sh waves through Japanese gove ment and business circles. As from creating Japan's largest ferrous-metals manufacturer, it united two companies that w split apart by the U.S. Occupat Abroad, few other Japan groups would have had the auc ity to buy Rockefeller Center risk competing against Gene Electric Corp. for control of Arist Chemical.

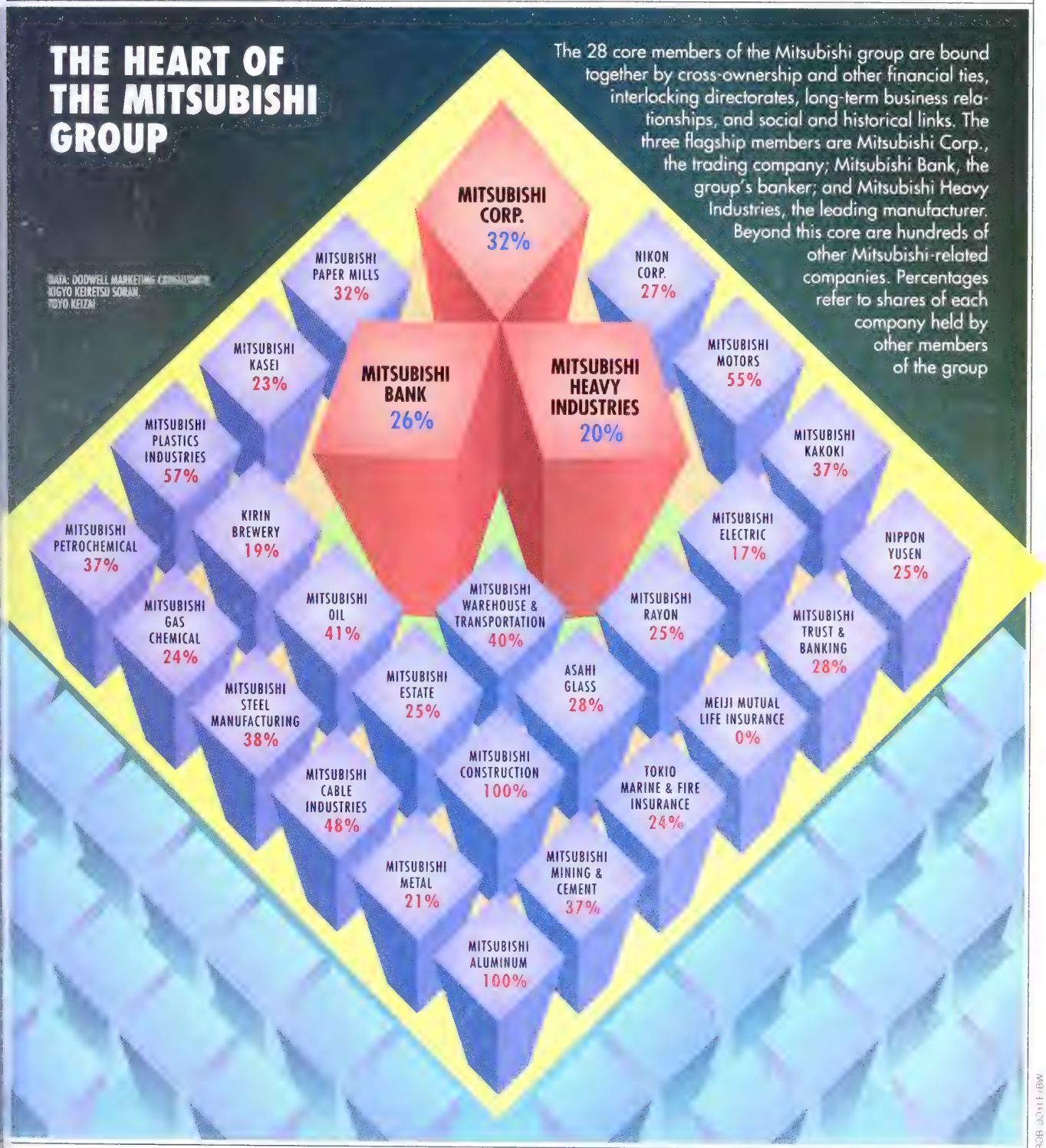
This sense of confidence distinguis the Mitsubishi of today from the low-p file group of a bygone era. "We are str ger than before," says Takeshi Saku president of Mitsubishi Electric Amer "We can do our own business in the U The Japanese GNP is very high. We speak English better than 20 years a This psychological effect is the big thing

This growing confidence has encourag Mitsubishi companies to work toget more closely than their counterparts at pan's five other leading groups, includ Mitsui and Sumitomo. In the Arist buyout, for example, seven Mitsubishi c panies were involved, and all 28 core Mit bishi companies teamed up to start Sp Communication Corp., the group's satel services venture.

The ability to marshal disparate sources for a mutually beneficial goa

N THE MOVE

TCHES FROM ROCKEFELLER CENTER TO RIYADH



classic *keiretsu* behavior. The Mitsubishi group is not a single corporate entity with a central "brain." The cross-shareholdings, interlocking directorates, joint ventures, and long-term business relationships—all underpinned by common educational and historical links—create a family of companies that do not depend on formal controls, but rather recognize their mutual interests.

"There's definitely a major strength there—interdependence," says Robert Ballon, a business professor at Tokyo's Sophia University. "That's a key value in Japanese society. For us, independence is good, so interdependence must be bad."

Indeed, the surge of Mitsubishi activity is intensifying the fears of foreign governments and corporations that they are up against a distinctively Japanese form of capitalism with built-in advantages over independent Western companies. Some observers draw parallels with the Wallenberg empire of Sweden or Deutsche Bank's large industrial holdings in Germany. But in both those cases, ownership is much more centralized. In a *keiretsu*, no single company predominates. Since one core member of a *keiretsu* rarely owns more than 10% of another, it doesn't do business with another unless it makes economic sense.

Most Western economists concluded long ago that such vast vertically and horizontally integrated organizations were too inefficent to survive. What they missed was that group members compete fiercely in the market and with each other. "If *keiretsu* were anticompetitive, we wouldn't have the situation in the auto industry we have today," notes David E. Cole, director of the University of Michigan's Automotive Transportation center.

FAMILY SAFETY NET. It is common, for example, to hear Mitsubishi Heavy Industries executives howl about losing out to European or Japanese rivals in bidding for work on a group member's project, and Mitsubishi Bank brass sometimes complain that their group counterparts do too much business with Chase Manhattan or Morgan Guaranty. Just as they hold only minority financial shares in each other, most Mitsubishi companies depend on other members for no more than 15% to 20% of their supplies or sales.

But the financial cross-holdings among companies in a *keiretsu* do weave a dense fabric of relationships that can be exploited when mutually beneficial. In effect, companies in the *keiretsu* enjoy a family safety net that encourages long-term investments and high-tech risk-taking. The *keiretsu*, argues Chalmers Johnson, a Japan expert at the University of California, San Diego, are Japan's "most important contribution to modern capitalism"—a creation that distinguishes capitalism in the West from capitalism in Japan.

In several ways, the Mitsubishi group is Japan's quintessential *keiretsu*. It is one of the three—along with Mitsui and Sumitomo—that are rooted in the prewar industrial state. Most broadly defined, the Mitsubishi group comprises literally hundreds of companies. At its heart are 28 "core" members whose top leaders participate in regular so-called Presidents' Council meetings. Mitsubishi also is the most closely knit *keiretsu*, with 26.9% of the average core member's shares held by another member, according to Dodwell Marketing Consultants. Mitsubishi companies are also the most pro able, with an average profit margin 4.7%, and they dispatch more directors fellow members.

Despite these links, there is no evide of a comprehensive central strategic pl and Mitsubishi executives insist that ea of their companies pursues its own parti lar goals. "Since the war, we have opera separately and independently," says So buro Ihara, managing director of the int national operations group at Mitsubi Electric. "Each company has developed own image, strategy, and markets."

PULLED OVERSEAS. But Mitsubishi com nies, like many others in Japan, are find global expansion irresistible. A strong yen, weakened Western companies, ris domestic land and labor costs, and tra friction make overseas investment and a ances more attractive.

One reason Mitsubishi seems to be m ing so suddenly and aggressively is that members are playing international cat up with rivals. The Mitsui group's Toy and the Fuyo group's Nissan laid claim Western car markets far ahead of Mitsu shi Motors. Mitsubishi Electric has a been far less aggressive in the U. S. a Europe than the Sumitomo group's N and Mitsui group's Toshiba. Mitsubi Bank was one of the last Japanese ban to establish a U. S. securities house.

Now, Mitsubishi executives are trying overcome tardiness with boldness. "To greater extent, we expect more coope tion and coordination with other Mitsubi group companies, as well as with other says Yohei Mimura, chairman of Mitsu shi Corp., which plays the role of gro "coordinator." He's also chairman the second-Friday-of-the-month *K yokai* Presidents' Council meetings

By virtue of these two positions, mura, 73, is the titular head of the tire group. His measured, diploma mien is much in keeping with the s reotype of the Mitsubishi Man—dis plined and organization-minded—co pared with Mitsui men who are kno as more individualistic. Outside perts credit Mimura with helping t Mitsubishi group shift gears ev though he lacks formal control. Sa Jordan Lewis, a Washington-based thor and consultant: "If the group h a bright, insightful guy like Mimu who says this is how the world and this is what we have to do, peo listen."

UNIVERSAL RECOGNITION. As th move into new markets and face int sifying competition, the Mitsubi companies will enjoy advantages available to most Western business An obvious one is the ability to lev age the three-diamond brand, parti larly when it comes to introduci

JAPAN'S OTHER TOP *KEIRETSU*

	Number of core companies in group
DAI-ICHI KANGIN	**47**
▶ SEIBU DEPARTMENT STORES	
▶ SHIMIZU	
▶ YOKOHAMA RUBBER	
FUYO	**29**
▶ MARUBENI	
▶ NISSAN MOTOR	
▶ CANON	
MITSUI GROUP	**24**
▶ TOYOTA MOTOR	
▶ TOSHIBA	
▶ TORAY INDUSTRIES	
SANWA	**44**
▶ TEIJIN	
▶ OHBAYASHI	
▶ KOBE STEEL	
SUMITOMO	**20**
▶ NEC	
▶ SUMITOMO CHEMICAL	
▶ SUMITOMO METAL INDUSTRIES	

DATA: DODWELL MARKETING CONSULTANTS

NEW FRONTIERS: A ROCKET BUILT BY MITSUBISHI HEAVY BLASTS OFF

ew, untested products into foreign mar-
ets. Notes Masanao Ueda, executive vice-
esident of Mitsubishi Motors: "Since we
gan selling Mitsubishi cars in America,
her Mitsubishi companies tell us they
ve benefited from our efforts in terms of
and awareness."

More important, the assumption that
u're backed by a powerful group is a real
is in credit markets. That, of course,
lps attract low-cost capital. "Having the
tsubishi name is a guarantee of non-
nkruptcy," says Space Communication
esident Hiromune Minagawa.

The backing is not just hypothetical.
nen group member Akai Electric Co. ran
o financial problems in the early 1980s, it
s rescued by Mitsubishi Bank. When
tsubishi Heavy Industries' shipbuilding
siness hit rough shoals in the mid-1980s,
vas able to place unneeded workers with
er group companies and raise massive
w equity. The cross-holding structure
o comes in handy in warding off take-
rs. When Texaco bought Getty Oil in
4, it looked ready to sell Getty's 50%
re of Mitsubishi Oil to Kuwait Petro-
m Corp. Mitsubishi companies rallied to
bid the Kuwaitis for Getty's shares.
e wanted to keep the three diamonds on
oline stands throughout Japan," says
nura.

Key to making all of this happen is the
se network of relations that Mitsubishi companies take pains to foster. These range from a successful matchmaking club, where group employees can meet future spouses, to the lofty *Kinyokai*. Held on the top floor of the Mitsubishi Building, near the Mitsubishi Club, the monthly meetings kick off at noon. The 49 chairmen and presidents get just 15 minutes to wolf down something simple like curry rice before Mimura leads them in a 15-minute discussion on joint philanthropical and public-relations projects. Then comes an hour-long lecture by an expert on some current topic.

WINDSHIELD WIPEOUT. Participants report occasional cases where the *Kinyokai* has tackled thorny group strategic issues, such as construction of a huge petrochemical complex in Saudi Arabia and how to help Mitsubishi Motors gear up for global distribution. In those cases, different group members are expected to contribute to solving a common crisis, or take advantage of a common opportunity. "There are major decisions made at these meetings," says one foreign executive who participated as part of a joint venture.

But it is generally agreed that the more important role of the Friday Club is to cement personal ties among group presidents and identify mutual interests. That lubricates the channels of communications for staffers from different companies to follow through later.

Group membership can occasionally have its downside. Last September, environmental activists in Rotterdam staged an event in which they dropped a log from a crane onto a Mitsubishi Motors car to protest destruction of tropical forests by Mitsubishi's trading companies. And Mitsubishi Electric's Ihara says some of his American customers complained when Mitsubishi Estate bought Rockefeller Center.

But it's highly doubtful that Mitsubishi will voluntarily dilute what's clearly a winning formula. The Japanese government has pledged to make the *keiretsu* more open and enforce antimonopoly laws more strictly, but at heart, many Japanese in leading government positions believe that the giant industrial groups are key to their economic success and are thus loath to undermine them. Says Iwao Nakatani, economics professor at Osaka University: "Using group power, they can engage in cutthroat competition."

That means Mitsubishi's international push will keep gaining momentum, leaving executives and officials around the world wondering how to compete. As the University of California's Johnson says, the competitive challenge posed by the *keiretsu* "is one of the main intellectual challenges of our time." Mitsubishi's march is bound to help force the issue.

By Robert Neff in Tokyo, with William J. Holstein in New York, and bureau reports

HANDS ACROSS AMERICA: THE RISE OF MITSUBISHI

A huge network of companies is challenging antitrust laws—and the American business culture

An odd thing happened in early 1990, when U. S. trade negotiators drew up a list of barriers that American companies face in Japan. High on the list of "structural impediments," they placed the exclusionary practices of Japan's *keiretsu*, or largest industrial groups. But while the trade specialists were hammering away in Tokyo, Mitsubishi and other Japanese groups were busily extending their *keiretsu* to the U. S.

Some 25 Mitsubishi companies have set up in the U. S., and they are using the same mutual-support techniques that have made them such a powerful force back home. Led by Mitsubishi International Corp., the U. S. subsidiary of Mitsubishi Corp., and financed in part by Mitsubishi Bank and Mitsubishi Trust & Banking, the group has pulled off spectacular takeovers, including Rockefeller Center and a slew of smaller companies, bringing its U. S. holdings to at least $4 billion.

In products visible to consumers, Mitsubishi companies are coming on strong. Mitsubishi Motors Corp. racked up a 48% increase in its U. S. car sales in the first eight months of 1990, to 139,390, because of an aggressive expansion of its dealer network and a blitz of new models. Mitsubishi Electric Corp. dominates the market for big-screen televisions and is putting the three-diamond logo on mobile cellular telephones and personal computers as well as big-ticket items such as spiral escalators and giant video screens in baseball stadiums. In technology, Mitsubishi Semiconductor America already has a dynamic random-access memory chip facility in Durham, N. C., and is about to start operating a sophisticated wafer-fabrication plant as well.

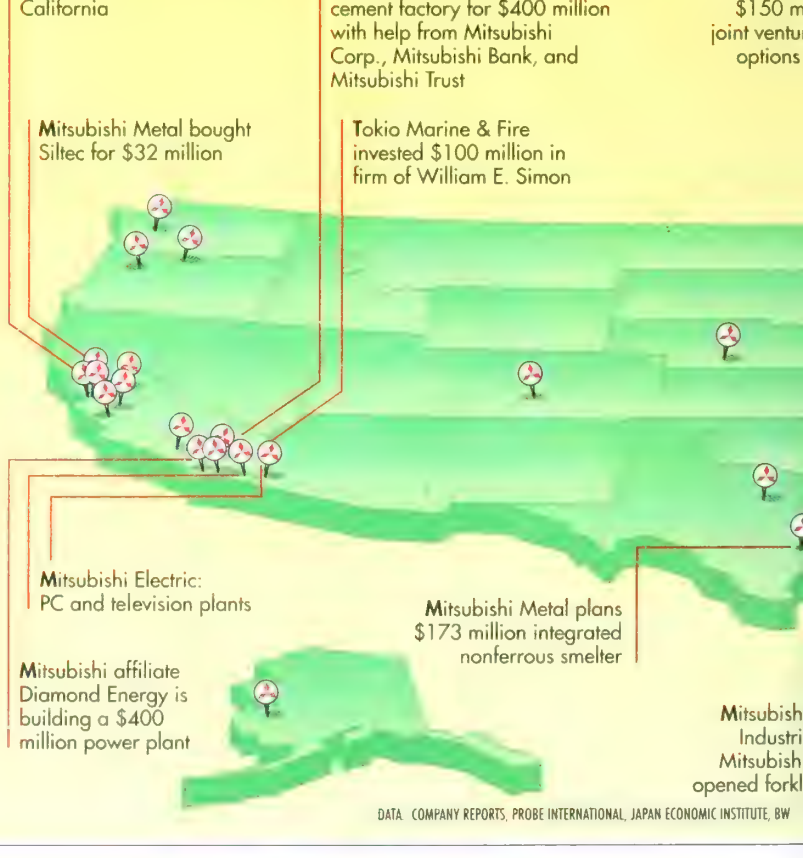
NETWORKING. Although U. S.-based Mitsubishi companies are set up individually, the reality is that they often cooperate among themselves—horizontally and vertically. Mitsubishi Electric in Ohio and Mitsubishi Heavy Industries in California sell to a Mitsubishi Motors joint venture with Chrysler Corp. in Illinois. They are among 25 Mitsubishi and Mitsubishi-related companies that supply the Illinois company, which is called Diamond-Star Motors Corp.

When Mitsubishi Heavy wanted to start forklift production in Texas, it turned to Mitsubishi Corp. to take 30% of the project and handle sales. Five Mitsubishi companies teamed up to buy a cement factory in California, and Mitsubishi Corp., Mitsubishi Bank, and Mitsubishi Trust often cooperate in making acquisitions. When Mitsubishi Semiconductor started in North Carolina, it asked the *keiretsu*'s trading company to handle purchasing and warehousing. Also lending a hand were group member Nippon Yusen, a shipping company, and Mitsubishi Bank, which provided some startup capital. "When we came to the U. S., we asked other Mitsubishi companies to support us," says Mitsubishi Semiconductor President Tadaaki Mizoguchi, whose plant nestles among the N Carolina pines. "If we had to develop erything from scratch or ask other side] companies we are not familiar wit would be more difficult."

Group membership does not guara that a company gets a sweetheart from a sister company. Mitsubishi He competed to supply gas turbines for a million power plant that Mitsubishi Co wholly owned Diamond Energy Inc. ur building in Virginia but lost most of work to Siemens. Mitsubishi Heavy lost in bidding to supply most of the ro to Diamond-Star in Illinois. "They d

MITSUBISHI'S U.S. MAP

The group's major invest



DATA: COMPANY REPORTS, PROBE INTERNATIONAL, JAPAN ECONOMIC INSTITUTE, BW

atisfy us," complains Diamond-Star Presi-ent Yoichi Nakane.

Beneath this flourishing group competi-on, however, is a ready network of con-acts, information, and business relation-hips that is a major asset in competing gainst U. S. companies. Key to this safety et is the group's trading company, which elps members charge into unchartered erritory, such as acquisitions, and occa-onally dispatches executives to help sister ompanies get established. Mitsubishi ank, meanwhile, provides at least part of ie capital. "Mitsubishi Bank is the main ank for all those companies," says Take-i Yano, chief executive officer of Mitsu-shi Bank North America in New York. f they need financing overseas, it's very atural for them to come to Mitsubishi ank." With $40 billion in U. S. assets, Mit-bishi Bank does 10% of its U. S. business ith group members.

AT, DRINK, AND GOLF. As in Japan, Mitsu-shi men in the U. S. have their own sup-rt structure. Many group U. S. head-arters are clustered within a few blocks each other in midtown Manhattan in and ar Rockefeller Center. Executives from fferent Mitsubishi companies frequent itsubishi-affiliated restaurants such as Sushiden and celebrate their promotions together in late-night drinking sessions.

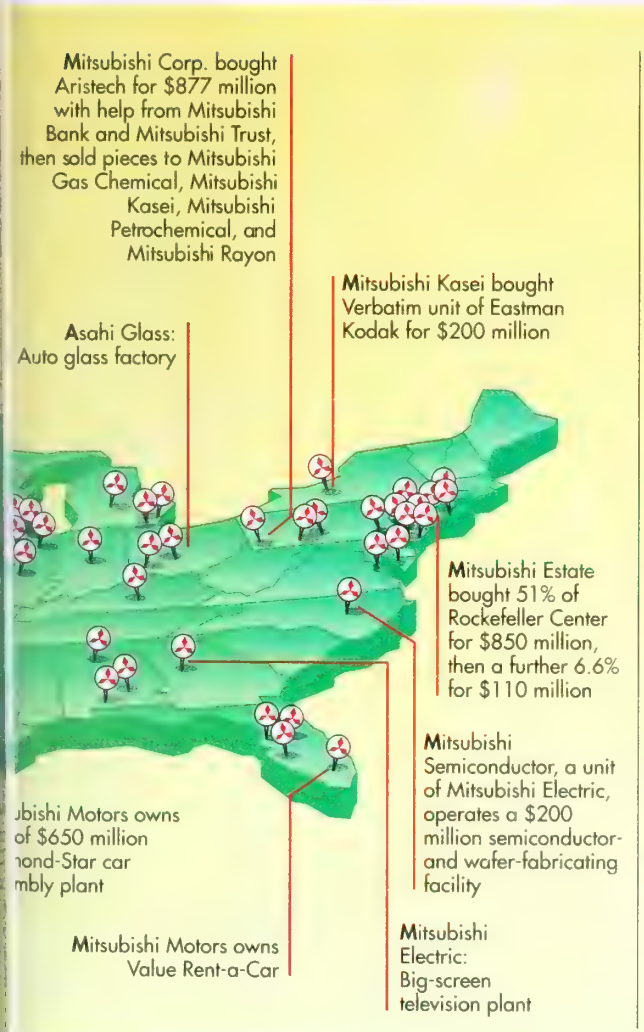
In warm weather, 10 or more Mitsubishi-America presidents golf together monthly at the Japanese-owned Canyon Club in Westchester County north of New York City, and in cold weather, they go to Florida. These connections often pave the way for business. "If a deal comes up, and you can do business with two different people, you tend to pick the person you know better," says Minoru B. Makihara, president of Mitsubishi International Corp. in New York. "You can trust them." Adds Yoshinao Ishijima, president of Mitsubishi Heavy Industries America Inc.: "We don't have to exchange business cards."

This group approach presents a challenge on many levels. The first is to would-be suppliers and competitors. Both critics and admirers of Mitsubishi-style *keiretsu* agree that they are harder for American suppliers to crack than other kinds of large corporate organizations because they often turn inward for business partnerships.

Mitsubishi's form of industrial organization also challenges U. S. antitrust law. Despite the group's concentration of assets in America, its structure doesn't conflict with U. S. statutes because Mitsubishi companies are legally independent and compete mainly in different industry segments, antitrust specialists say. While that frustrates Japan's critics, other experts say the group approach should be regarded as a more efficient organization for international competition than the independent Western approach. To enhance competition, says Kozo Yamamura of the University of Washington in Seattle, the U. S. should be fostering economic entities of comparable scale and power.

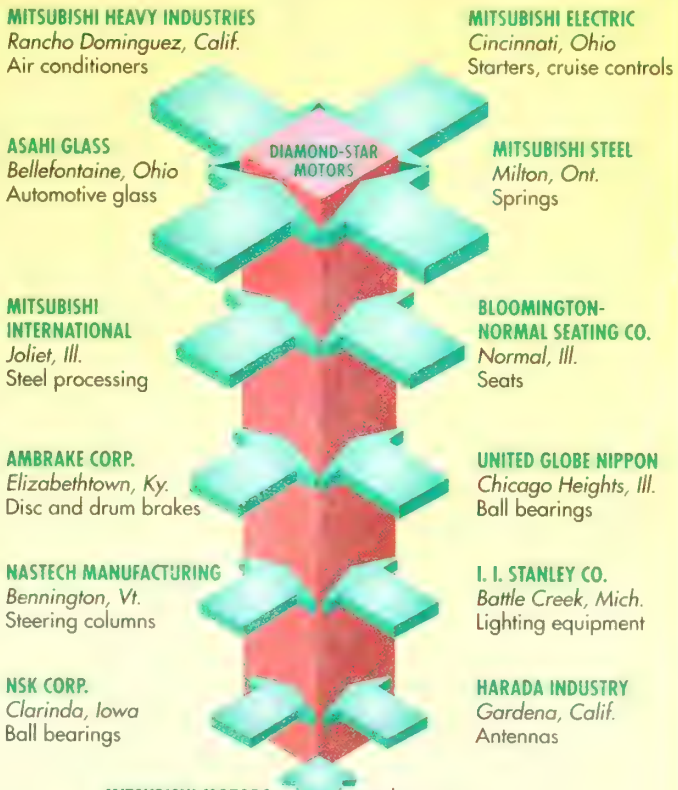
One of the most instructive cases of how the Mitsubishi group maneuvers in the U. S. was the takeover of Aristech Chemical Corp. When the Huntsman group of Utah was bidding for control of Aristech, it turned to GE Plastics, a giant in the field, for support. To beat that takeover attempt, Pittsburgh-based Aristech executives relied on Mitsubishi Corp. to organize a management buyout in which the trading company would take control.

GE Plastics says it never officially entered the takeover battle, but one factor that deterred it was that attorneys for Mitsubishi at Winthrop, Stimpson, Putnam, and Roberts in New York threatened to create antitrust problems. They argued that GE Plastics would have had too great a



BUILDING CARS THE MITSUBISHI WAY

Diamond-Star Motors in Bloomington, Ill., is a joint venture with Chrysler, managed by Mitsubishi Motors. It relies heavily on Mitsubishi and Mitsubishi-related suppliers



DATA: UNIVERSITY OF MICHIGAN'S OFFICE FOR THE STUDY OF AUTOMOTIVE TRANSPORTATION

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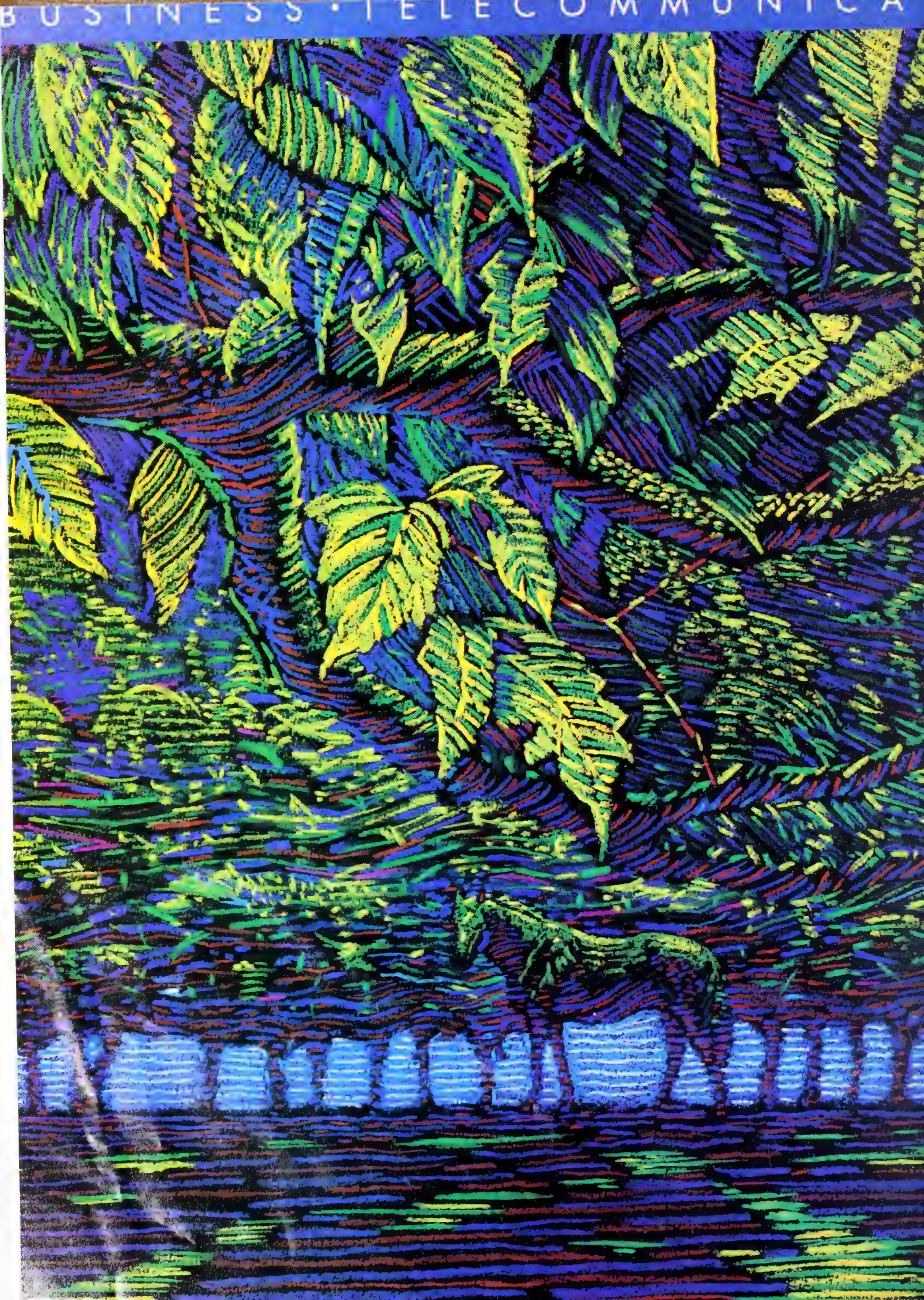
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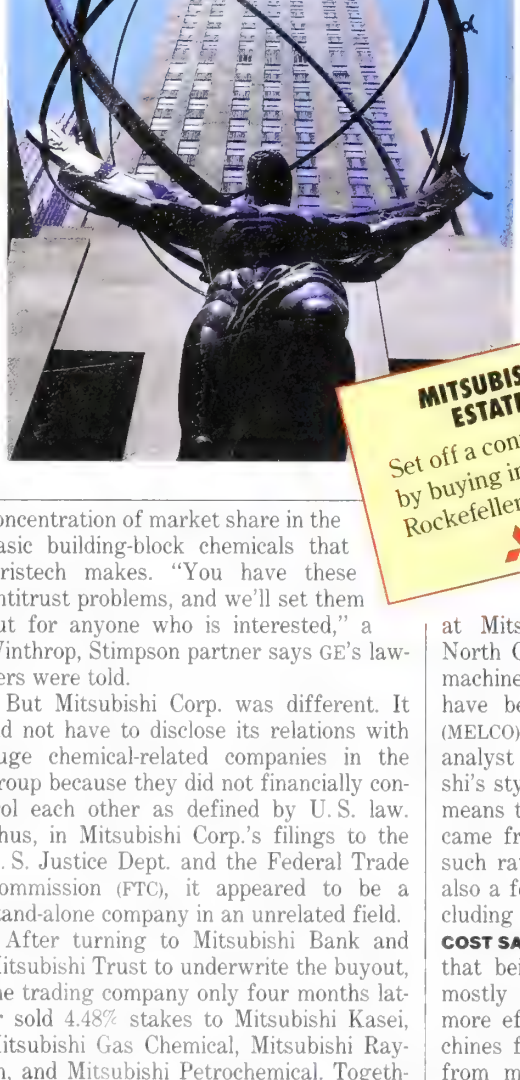
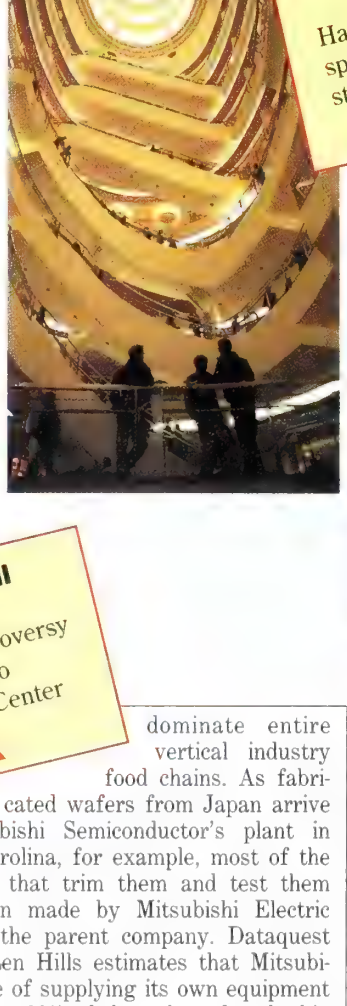
MITSUBISHI'S U.S. PRESENCE





MITSUBISHI ELECTRIC
Has charged into spiral escalators and stadium TV screens

MITSUBISHI ESTATE
Set off a controversy by buying into Rockefeller Center

concentration of market share in the basic building-block chemicals that Aristech makes. "You have these antitrust problems, and we'll set them out for anyone who is interested," a Winthrop, Stimpson partner says GE's lawyers were told.

But Mitsubishi Corp. was different. It did not have to disclose its relations with huge chemical-related companies in the group because they did not financially control each other as defined by U. S. law. Thus, in Mitsubishi Corp.'s filings to the U. S. Justice Dept. and the Federal Trade Commission (FTC), it appeared to be a stand-alone company in an unrelated field.

After turning to Mitsubishi Bank and Mitsubishi Trust to underwrite the buyout, the trading company only four months later sold 4.48% stakes to Mitsubishi Kasei, Mitsubishi Gas Chemical, Mitsubishi Rayon, and Mitsubishi Petrochemical. Together, these four companies have sales of more than $11 billion compared with GE Plastics' $4.9 billion. The end result was that Japan's largest industrial group, including its largest general chemical maker and largest petrochemical company, secured control over Aristech—something GE Plastics was discouraged from doing partly because of antitrust worries. GE Plastics and Aristech declined to comment on the antitrust issue.

Aside from such horizontal cooperation, another distinguishing characteristic of Mitsubishi's U. S. presence is its ability to dominate entire vertical industry food chains. As fabricated wafers from Japan arrive at Mitsubishi Semiconductor's plant in North Carolina, for example, most of the machines that trim them and test them have been made by Mitsubishi Electric (MELCO), the parent company. Dataquest analyst Len Hills estimates that Mitsubishi's style of supplying its own equipment means that 90% of the value of each chip came from within the group, the highest such ratio of any Japanese company. It's also a feat that no American company, including IBM, can match.

COST SAVINGS. Mitsubishi executives argue that being able to equip a factory with mostly Mitsubishi equipment makes it more efficient than using one set of machines from manufacturer X and another from manufacturer Y. Because Mitsubishi's machines are made to function smoothly together, fewer operators are needed and the company gains a cost edge, they say. The result is also that fewer outside suppliers get a piece of the business than they might at less vertical U. S.- or European-owned companies.

Likewise, in Braselton, Ga., about 50 miles from Atlanta, a MELCO unit has built a spanking-new television factory. In front of the plant fly the U. S. flag, old Dixie, and the three-diamond flag of Mitsubishi. In the lobby are big-screen televisions playing *Gone With the Wind*. But the plant is only a final assembly point. The big pict tubes arrive from a MELCO factory in K to and the chassis, the only other "val added" part of a television, arrive fron MELCO subsidiary in Singapore. Work earning an average of $8.90 an hour in Braselton factory merely "screwdriv parts together.

In other industries where group play are just getting started, the Mitsubishi v tical supply network is different. Take Diamond-Star plant in Illinois, which Mit bishi Motors manages. Toyota, Honda, a Nissan all have groups of locked-in sup ers that have followed them from Jap but Mitsubishi's pattern is more indire Mitsubishi core companies that supply D mond-Star aren't captive because they s to many different companies and are po erhouses in their own right. Mitsubi Electric, for example, sells parts to Maz and Honda in addition to Diamond-Star.

Mitsubishi's strength over Toyota Nissan, however, is that group compan are involved in auto plastics, tire tre metal powders, and in many of the raw m terials that feed into the supplier pyram Unlike a Japanese car manufacturer, M subishi's reach stretches across virtua the entire gamut of economic activi chemicals, cars, coal mining, high te "Mitsubishi is more broadly based tha say, Toyota," says David E. Cole, of t University of Michigan's Office for t Study of Automotive Transportation. "C is huge in autos, the other is huge acro

MITSUBISHI CORP.
Won control of Pittsburgh-based Aristech Chemical

MITSUBISHI MOTORS
Sales of new models, such as this Eclipse, are on a fast track

ange of industries."
As Mitsubishi extends its *retsu* structure to the S., the issue of how to re- nd will heat up and will inevitably in- ve the antitrust question. Congressional ics argue that Mitsubishi-like *keiretsu* eady are violating the intent of antitrust s, but they have so far turned up no of. According to antitrust experts, Mit- ishi companies are legally independent, in terms of cooperation among group mbers, there's no evidence that Mitsubi- companies illegally conspire to freeze other companies. Says Joe Sims, a part- and antitrust specialist at Jones Day: ie only time those relationships create itrust problems is when they signifi- tly reduce competition."

DEALS. Another key issue is whether co- ration among group members excludes erican suppliers or financiers, just as *retsu* allegedly do in Japan. Mitsubishi cutives argue that deals among them- es are not cut in advance and are not lusionary. When Mitsubishi Estate Co. ght 51% of Rockefeller Center, execu- s say it did not have any guarantee that ould turn to Mitsubishi Corp., Mitsubi- Bank, and Mitsubishi Trust for help in ncing the deal. When Mitsubishi Corp. acquiring Aristech, it was not clear it role the four Mitsubishi chemical panies would play. On such occasions, up cooperation is often an "accident" or ncidence," Mitsubishi executives say.

That argument does not wash with Japan experts such as the University of California-San Diego's Chalmers Johnson, who says: "Nobody in his right mind believes these things happen accidentally." Adds a Congressional source investigating the *keiretsu*: "The conspiracies form naturally within the *keiretsu*, and they are conducted informally. Word of mouth is sacred. Nobody breaks the deal. They don't need lawyers." The House Judiciary Committee is leading the push against *keiretsu* and has requested an FTC investigation of whether the supply networks of Honda, Toyota, and Nissan violate antitrust law because they exclude American suppliers.

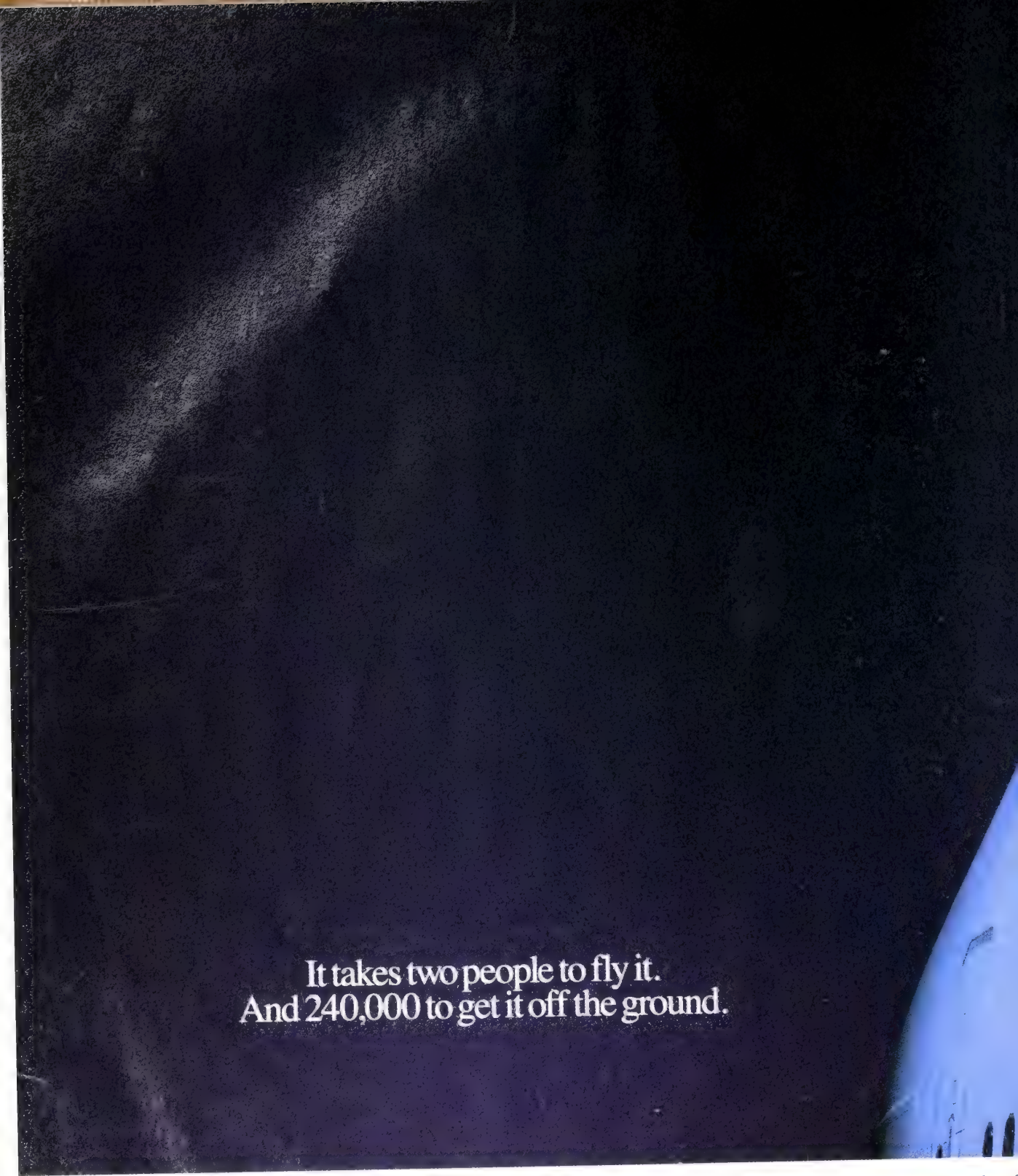
If Mitsubishi's structure does not violate antitrust statutes, then the question Congress is likely to address is whether the U. S. should encourage American companies to develop similar structures. The University of Washington's Yamamura, author of a new book on Japanese investment in the U. S., argues that global competition in technological fields requires all companies to make bigger, longer-term investments, to sustain deeper relationships with fewer suppliers, and to secure the best access to low-cost capital. "American companies want to be individualistic, but the requirement of the new age is that they have to take a few pages out of Japanese experience to enhance their efficiency," he says.

Although some U. S. companies are now cooperating more fully with suppliers and others are now taking part in consortiums such as Sematech, they remain at the opposite end of the spectrum from the *keiretsu* model. The Administration's belief that markets will resolve competitive problems has also kept companies from pushing harder for *keiretsu*-like groups.

Beyond antitrust and industrial policy issues lies the question of how the U. S. will respond to foreign investment. One reason Mitsubishi companies have been able to replicate a *keiretsu* system in America is that the U. S. government knows little about the pattern of inward-bound foreign investments. Congress is considering several bills that would improve the U. S. ability to understand that pattern, but their chances of passage are mixed.

The bottom line is that Mitsubishi's push into the U. S. is likely to force a reexamination of U. S. economic values, systems, and policies. "Our antitrust laws and our antitrust ideals are not geared to deal with this structure," says Francis A. Moyer, a former Tokyo-based financial analyst now at North Carolina State University. "We haven't defined our own principles as to how we should respond." For the time being, this clash of two very different competitive cultures is expanding, and American companies will have to keep competing with Mitsubishi—the old-fashioned way.

By William J. Holstein in Durham, N. C., James Treece in Bloomington, Ill., Stan Crock in Washington, and Larry Armstrong in Los Angeles



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You see, a jetliner is more tha

onument to technology. It's a monu-
ent to human cooperation.

Because while there may be only
o people sitting up front, there are
quarter of a million others standing
hind them.

BOEING

CHRYSLER GOT PLENTY OF IDEAS FROM THE 3,000 LETTERS A MONTH IT RECEIVES FROM ITS TYPICAL MARRIED-WITH-CHILDREN MINIVAN OWNE

THE STREETWISE MAKEOVER OF CHRYSLER'S MINIVANS

Facing new rivals, the company depended on customer feedback to update its already popular mode

When he looks at his wildly popular minivans, Chrysler Chairman Lee A. Iacocca is haunted by memories of the Ford Mustang. Sired in part by Iacocca, the original pony car was a runaway success when introduced in 1964. But Ford Motor Co. couldn't leave well enough alone. Iacocca and his colleagues repeatedly restyled the Mustang, adding extra weight, length, and costs. It became, in Iacocca's words, "a fat pig." Ford fixed a car that wasn't broken and in the process nearly killed it off.

With the minivan, the former Ford president wants to avoid another Mustang-style blunder. Iacocca, with then-President Harold K. Sperlich, launched the Chrysler minivan in 1983 for young, busy families, a vehicle roomier than a station wagon but with the easy maneuverability of a car. It all clicked: Chrysler Corp.'s minivan sales went from 8,000 units in 1983 to almost 400,000 this year (page 112).

But now, after seven years on the road, the company's minivan line is up for its first major restyling, and Iacocca needs a winner. Sales of other Chrysler vehicles have sagged dangerously. The Jeep Cherokee is under considera pressure from the Ford Explorer other rivals. Even minivan sales, w profits of $4,000 to $5,000 per car, h flattened in the ge al slump. And Ch ler still has to wo about a possible ba lash from an emb rassing problem: a p tern of failures in electronic transmiss it introduced in 1988 in many of minivans and Chrys sedans (box).

This spells oppo nity for other a

MINIVANS: A BOOMER FAVORITE

Demographic profile of Chrysler's minivan buyers vs. all passenger-car buyers

	Minivans	Cars
30 to 44 years old	55%	32%
Married	95%	69%
Housewives	14%	6%
Suburbanites	45%	40%
Median children	3	2
Median income	$54,000	$45,000

DATA: CHRYSLER CORP.

akers. Analysts estimate the minivan arket will expand 30%, to 900,000 units year, by 1995, and new contenders are owding the field. Mazda, General Mo- rs, and Toyota have introduced mini- ns within the past two years. Nissan otor Co., whose first minivan, the Ax- ss, flopped, will reenter in 1992 with a odel jointly produced with Ford.

Yet Chrysler still has 55% of the mini- n market—astounding for a company nked a weak No. 3 overall in car and ick sales. To keep its lead, the compa- has spent $650 million redesigning its w minivans, which will be officially unched on Oct. 4.

Despite the millions spent, the new rysler minivans' boxy styling is bare- distinguishable from the look of the l models. Iacocca and his lieutenants nk it would be a big mistake to create iot new style for their minivans, even ough the Chevrolet Lumina APV and yota Previa are pushing their space- e looks. "[Their] styling is beautiful, l for those who want a highly styled nivan, it's wonderful," says Robert A. tz, president of Chrysler Motors. "But it's an infinitesimal portion of the rket." Instead, Chrysler focused on merous changes in its minivans' interi- , based on advice from expert consul- its—its customers.

Detroit always says it gives drivers at they want. Yet, millions have ned to Japanese designs for satisfac- n. In the case of minivans, though, rysler seems to have paid special at- tion: In 1984, the company surveyed 00 buyers by mail, instead of the usu- several hundred, to gauge response to then-unconventional vans. Since n, Chrysler has surveyed all buyers mail and talked directly to more than 000 owners. That's "a good five times average concentration," says David Bostwick, manager of Chrysler's busi- s planning and research.

I FANS. At the same time, Chrysler s about 3,000 letters a month from nivan owners—nearly triple the vol- e of letters inspired by the Jeep Cher- e. These owners are younger, are ning more money, are more likely to married, and have more kids than the rage motorist (table). They represent narket that Detroit was supposed to e lost to its Japanese rivals, but the ntessential American minivan has d them back. The loyalty rate for ivan buyers is an amazing 86%. That ts even owners of full-size pickups, of whom replace one pickup with ther. As Margaret A. Metzger, a nbridge (Mass.) high school teacher owner of a Plymouth Voyager, puts "going back to a family car [now] uld be like going back to an apart- nt after living in a house."

his kind of loyalty has triggered

THE DO-IT-ALL TRANSMISSION THAT HASN'T DONE MUCH FOR CHRYSLER

JOHN McDONALD IS ON HIS THIRD AND—HE VOWS—LAST ULTRADRIVE TRANSMISSION

When Chrysler Corp. unveiled its Ultradrive electronic transmission in 1988, it was a rare technological coup for the company. Chrysler executives boasted that Ultradrive was the first automatic transmission capable of adapting to a person's unique driving style. So, for a driver who liked to accelerate fast when the light turned green, Ultradrive would oblige with a rapid shift in gears. Very impressive: The Society of Automotive Engineers gave Chrysler an award for Ultradrive, and Chrylser installed the technology in minivans with six-cylinder engines as well as in some passenger cars.

But the kudos were premature, and Ultradrives started conking out. Of 1 million 1989 and 1990 model vehicles with the new transmissions, Chrysler has had to replace more than 19,000 so far. The main problem was a leak-prone seal that let fluid seep into the wrong cavities. The transmission then tried to engage two gears at the same time and so burned out the clutch.

One manager, who asked not to be named, says his corporate car-fleet company had to replace transmissions in 50 of the 125 1989-model minivans it bought. Disgruntled buyers of 1989 and 1990 cars and trucks have filed more transmission complaints against Chrysler with the National Highway Traffic Safety Administration than against either Ford or GM for those model years.

Chrysler has been working to tame Ultradrive. After March, 1989, the transmissions got a second seal to stop the leaks. In January, 1990, the company recalled 53,000 vehicles to fix a glitch that could stop transmission oil from circulating in subzero weather. Chrysler says Ultradrive's failure rate for 1990 models so far is only about 0.8%, vs. the 3.8% rate for 1989 models. Joseph Shelcusky, a supervisor for Automotive Rentals Inc., a car-leasing company in Maple Shade, N. J., says he has noticed fewer problems among Ultradrive-equipped vehicles produced later in the 1990 model year.

But the problems still test the loyalty of some minivan customers. John McDonald, a Des Moines industrial-components salesman, traded in his 1989 Dodge Caravan in January, after it needed two transmission replacements. Then, in September, his new 1990 Caravan needed an Ultradrive transplant. "I feel like [the transmission] is being field tested at my expense," McDonald says. "I would not buy another" Caravan.

Chrysler foresees fewer problems with its 1991 models. But hundreds of thousands of owners with potentially troublesome 1989 and 1990 Ultradrives could still get driven off.

By David Woodruff in Detroit

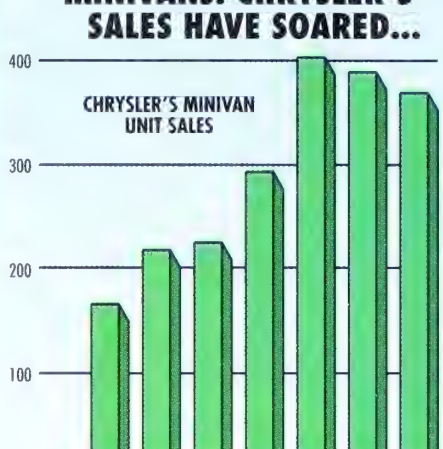
plenty of suggestions for making the Chrysler minivan even better. In January, 1989, after 18 months of driving her second Plymouth Voyager, Kristina Peters, a homemaker from Stevens Point, Wis., wrote suggesting eight changes for future models. Among them: shoulder belts for the rear bench seats, air bags for the front passengers, defrosters for the side windows, and more easily accessible drink holders for the first bench seats. "I guess I trusted Lee Iacocca to follow through with consumer suggestions," she says.

So many other minivan owners wrote that in 1986, Chrysler's planners decided to rely on the letters for design ideas, instead of the usual series of motorists' focus groups. The letters convinced Chrysler that the minivans did not need major exterior changes. Only one letter received in the past five years wanted extra style: A Vermont man asked for "MORE CHROME."

ON DEMAND. The letters overflowed with suggestions for the interior, though. Among the improvements most often requested: a dashboard that was easier to read, a genuine glovebox in addition to the popular storage bin under the front passenger seat, a high-mounted rear brake light, fold-back outside mirrors, optional bucket seats in the second row (to keep the kids separate on long drives), a flat storage shelf on top of the instrument panel, and a handle on the back of the front passenger seat to help folks climbing into the rear seats.

They asked for it; they got it. Chrysler's new ad campaign this fall will emphasize many of these new features. The company is also counting on the goodwill it generates by following owners' suggestions. Barbara A. Rice, a substitute high school teacher in Prospe

MINIVANS: CHRYSLER'S SALES HAVE SOARED...



...BUT RIVALS ARE CROWDING IN

Model	Year introduced	19
CHRYSLER		
▶ Dodge Caravan	1983	$13,200-
▶ Plymouth Voyager	1983	13,200-
▶ Chrysler Town & Country	1989	
FORD		
▶ Ford Aerostar	1983	12,300-
GENERAL MOTORS		
▶ Chevrolet Astro	1985	14,600-
▶ Chevrolet Lumina APV	1989	14,700-
▶ Pontiac Trans Sport	1989	15,600-
▶ Oldsmobile Silhouette	1989	
MAZDA MPV	1988	12,400-
TOYOTA PREVIA	1990	14,400-
NISSAN-FORD	1992**	

*All based on two-wheel-drive versions NA = no
**Scheduled lo

DATA: *WARD'S AUTOMOTIVE REPORTS*, CHRYSLER CORP., BW

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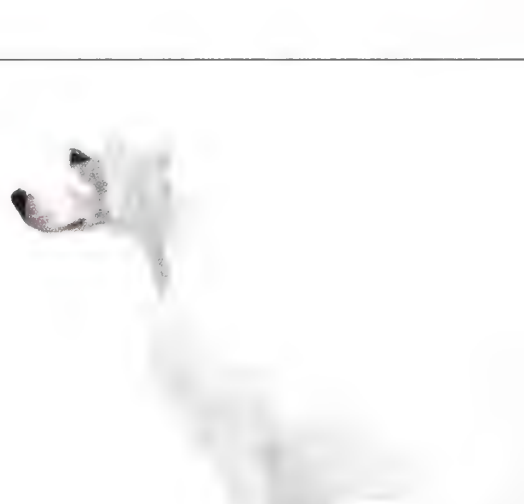

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nio, drives a Plymouth Voyager. She ote Iacocca in September, 1988, ask- for a center rear-brake light, head straints for the seats, and better drink ders. The drink holders were added in ited form in the 1989 model. When e saw that, she thought: "See how werful I am?"

Analysts give Chrysler's remake of the minivan high marks. "They came up with a good concept," says Christopher W. Cedergren, a senior auto analyst with J. D. Power & Associates Inc. "And they updated it without ruining it."

But the auto maker still has its problems. Last year, for example, it launched a luxury minivan, with leather seats and a fancier grill, for the older and more affluent. But minivans sell on convenience, not prestige. Only about 4,000 luxury minivans have sold this year, way under the 10,000 sales projected.

PRUDENCE PAYS? Rival makers are trying to imitate Chrysler's close bond with minivan drivers. Craig J. Oppenlander, manager of the team that brought out the Oldsmobile Silhouette minivan, even brags that his customer information is better than Chrysler's. Chrysler relied on letters several years old for design suggestions. But this spring, says Oppenlander, Olds "initiated in-depth research geared to getting at today's needs. Not what they were three or four years ago, but now." Toyota Motor Corp.'s U. S. design shop, Calty Design Research Inc., consulted with 70 California families before it did the sleek styling of the 1991 Previa.

But those efforts still don't compare with Chrysler's, which even rivals concede have been well done. "When you've got a winner, it pays to be cautious," says Pontiac Div. General Manager John G. Middlebrook. General Motors, for the moment, is still making more minivans than it can sell. Now, as Chrysler's new minivans hit showrooms, consumers will decide if Iacocca's prudent approach is truly giving them what they want.

By James B. Treece in Detroit

PETER YATES

FACE: CHRYSLER MADE SURE THAT ALL THE CHANGES DIDN'T AFFECT THE MINIVAN'S LOOK

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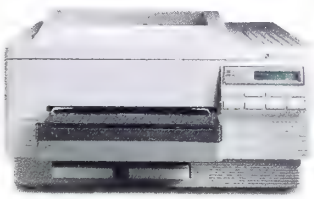

HEWLETT PACKARD

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A GENTLER THERAPY FOR SICK THRIFTS AND BANKS

Court challenges, fears about the economy, and white-elephant holdings have regulators in a bind

Only a year ago, it seemed that regulators had learned a thing or two from the savings-and-loan scandal.

Armed with a tough new law, flint-eyed thrift regulators vowed to shut down insolvent S&Ls and end accounting gimmickry. Bank regulators also got into the act, pledging to impose stiff new capital requirements to prevent banks from stumbling down the S&Ls' errant path. The only question, says Dallas banking lawyer Richard Kneipper, was "who would out-Rambo whom."

Make way for a kinder, gentler Rambo. L. William Seidman, chairman of the Federal Deposit Insurance Corp., told Congress on Sept. 10 that he may have to reverse policy and keep some sick thrifts open, rather than liquidate them. Several court setbacks has further eroded S&L regulators' ability to take over thrifts and end questionable accounting practices. Banking regulators, meanwhile, are haggling over how much to tighten requirements for their reserve of capital, which financial institutions use to cover losses before regulators tap their dwindling insurance fund.

'FINE LINE.' Officials face a dilemma. The longer they let doomed institutions struggle on, the higher the cleanup costs, which now stand at $130 billion plus interest. But they are clearly worried that if they squeeze too hard, they could kill off some institutions that may be able to survive. "The regulators are trying to walk a fine line," says Lowell Bryan, a banking consultant with McKinsey & Co. "Anyone with a little sense would be apprehensive."

The signs of a softer regulatory touch also are partly the product of an economy teetering on the brink of recession. Collapsing real estate markets, sour leveraged buyouts, and rising interest rates have endangered commercial banks and made it difficult for the Resolution Trust Corp., which Seidman also heads, to sell off the assets of failed thrifts.

FDIC CHIEF SEIDMAN: FINDING OUT IT ISN'T SO EASY TO SELL THE ASSETS OF FAILED INSTITUTIO

And problems are mounting. The General Accounting Office said on Sept. 11 that 35 large banks may fail or may need an infusion of federal funds over the next year. Possible cost: as much as $6.3 billion. Indeed, 15 of the banks failed between the GAO review and presentation of the report. The agency added that the FDIC's $13.2 billion fund may run dry if the economy slides into a recession and the fund can't raise bank deposit insurance premiums enough to replenish its c fers. That would force taxpayers to po up, as they have for the thrifts. Seidm says a crisis isn't imminent. "The fund under stress," he says. "But you do do any good by trying to create panic

Any effort to boost FDIC premiums likely to strain banks even furthe They're coming off a dismal seco quarter, during which earnings fell $5.3 billion, or 24% below last year's le els. As the economy continues to wea en, banks are even starting to see dete oration in their consumer loan portfoli which until now have helped offset r ink elsewhere. At Citicorp, for instanc nonaccruing consumer loans stood $2.3 billion, or 2.46% of consumer loa

SHAKY BANKS

Performance ratios for 35 big banks that the GAO expects will fail in 1991*

	Equity capital	Problem assets	Net income
Problem banks	1.4	8.8	-3.5
All banks	6.2	3.4	0.5

*As a percent of total assets, 12/89

DATA: U.S. GENERAL ACCOUNTING OFFICE

standing in June, up from $2 billion, 2.07% at the end of last year.

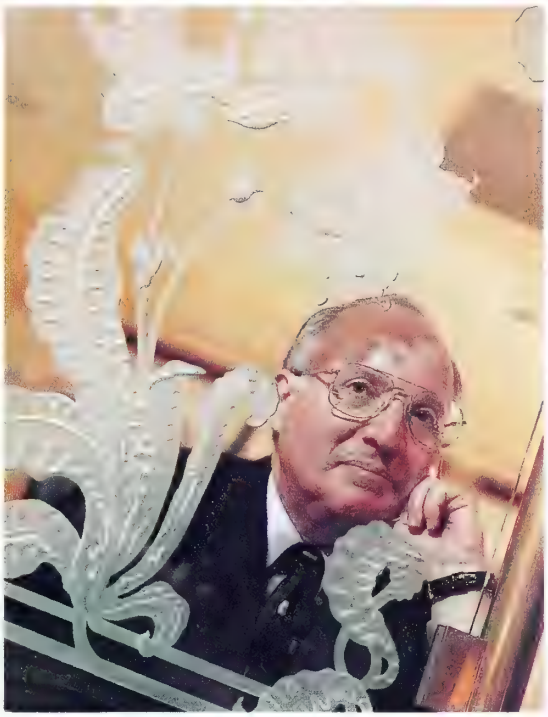
Seidman denies that regulators have anged their stance, but he says, ere is lots of evidence regulators 'en't been tough enough." Their cau- is most visible where conditions are most fragile. In slumping New En- nd, regulators are showing far more bearance than they were a year ago, s James Moynihan, a regional bank lyst for Advest Group Inc. "They w if they squeeze any tighter, we'll e a credit crunch the likes of which ve never seen before," he says. The s-plagued Bank of New England p. hasn't been able to meet the mod- capital requirements regulators set spring. The government hasn't ed the plug, though, because new nagement has sold off assets and ached the hemorrhaging of deposits.

VIVAL ODDS. Some thrifts may get a ilar reprieve. Regulators initially a hard line and closed down hun- ds of insolvent S&Ls. They reasoned shuttering these thrifts, which of- paid inflated interest to attract de- ts, prevented further losses and ed pressure on competitors to pay ealistic rates. But Seidman's strategy uires lots of cash up front. The gov- nment has been able to sell deposits has had to keep billions of dollars th of troubled assets. On Sept. 11, ulators told Beverly Hills-based Co- bia Savings & Loan to get a better on its $3 billion junk bonds. The one r was laden with loopholes that d be costly to the government.

lthough regulators haven't yet vn up specific guidelines handling marginal thrifts, cials may keep open S&Ls strong managements. se would be closely moni- d and would not be allowed row or pay dividends until recover.

hile regulators have chosen ease up in some cases, 've been forced to back off others. The reason: chal- es to their enforcement of isions of the 1989 thrift which gave the Office of ft Supervision unprecedent- uthority to close risky S&Ls curb activities of highfliers e). "You can't run rough- just because the political or is pushing you," says nas A. Brooks, a former general counsel who now esents bank clients. "Indi- al and shareholder rights need to be protected."

e challenges are still work- their way through the ts, but at the least, they



FRANKLIN'S FLEISCHER: THE FEDS SHUT HIS SOLVENT S&L

are likely to slow regulators down. In July, for example, the U. S. Claims Court in Washington issued a ruling that could hamper S&L regulators' ability to enforce their new capital standards. Many thrifts have agreements with the government that let them count as capital so-called supervisory goodwill, the difference between the purchase price and the value of the thrift's assets. But the regulators argue that last year's S&L law, which phases out goodwill as a component of capital, abrogated the agreements. In the case of United Federal Savings Bank of Roseland, Minn., the court sided with the thrift and opened the regulators to damage suits. An appeal is likely.

More recently, a federal judge in Kansas City overturned a federal takeover of Franklin Savings Assn. in Ottawa, Kan., ruling that the move was "arbitrary and capricious." The thrift was solvent when it was closed on Feb. 15 but failed to meet capital requirements under the government's calculations. Trouble was, according to the Sept. 5 ruling by Judge Dale E. Saffels, the government's calculations were wrong. Franklin used some complicated futures hedging techniques that incurred substantial losses, but the thrift convinced Saffels that it should have been allowed to write them off more slowly than the regulators demanded. "I don't know what the regulators were seeking to accomplish other than an ego trip at the taxpayer's expense," says Ernest M. Fleischer, Franklin's former owner. The regulators have appealed.

One key case has already made it to the U. S. Supreme Court. The government hopes to reverse an appeals court ruling that would let Thomas M. Gaubert, who once operated Dallas-based Independent American Savings, sue the government for negligence because his investment in the thrift became worthless after the government installed new managers. Regulatory actions are usually exempt from the Federal Tort Claims Act, but Gaubert argues that business operations run by government are not. A victory for Gaubert would undermine regulators' authority to step in to help shaky thrifts.

These legal setbacks and the regulators' new caution may be only temporary. It's possible, for instance, that Seidman and Federal Reserve Chairman Alan Greenspan will settle their squabble with Comptroller Robert L. Clarke, who regulates federally chartered banks, by agreeing to a tough new formula for bank capital. Ultimately, though, the parlous state of the economy will determine how patient the regulators will be and how high the taxpayer bill will go.

By Catherine Yang in Washington, with John Meehan in New York and Geoff Smith in Boston

THE LANDMARK CHALLENGES TO REGULATORS

FRANKLIN SAVINGS

A U.S. district judge on Sept. 5 ruled that regulators didn't have sufficient grounds to seize the Ottawa (Kan.) thrift and ordered Franklin returned to its directors and managers. The next day, a federal appeals court stayed the ruling pending an appeal, but other failed thrifts may be emboldened to petition for relief

WINSTAR

The U.S. Claims Court decided on July 27 that regulators have to honor a 1984 agreement that eased capital requirements for Winstar when it purchased a failing Roseland (Minn.) S&L as part of a government rescue. The 1989 thrift bailout law had prohibited such capital accounting. Regulators will likely appeal

INDEPENDENT AMERICAN SAVINGS

The Supreme Court agreed in June to decide whether Thomas M. Gaubert, the former operator of the Dallas thrift, can sue the government for losses incurred at his former S&L during the time regulators operated it. If Gaubert wins, the Office of Thrift Supervision may lose some say in the management of weak thrifts

SARA WEBB, 73, BOUGHT $20,000 WORTH OF MUNICIPAL BONDS THAT WERE SUPPOSED TO FUND HOUSING. SHE LOST NEARLY HALF THAT

'I'M ONE OF THE SUCKERS'

Did Drexel and First Executive gull investors and muni issuers?

When Michael R. Milken's junk-bond market fell, some of America's flashiest wheeler-dealers went down with it. The collapse also snared Sara Webb. The 73-year-old Tennessee widow lost almost half of her $20,000 investment in Memphis municipal bonds, which turned out to be tied to the sinking fortunes of junk bonds.

Mrs. Webb recently discovered that she had invested in an unusual species of municipal bond. Concocted by Drexel Burnham Lambert Inc., the bonds were issued by municipalities in 1986 and appeared to be much like other muni bonds, with the proceeds destined for worthwhile projects. In the case of Webb's investment, the local housing authority issued $400 million worth of bonds to build housing for the poor, elderly, and handicapped.

Instead, Memphis used the cash to buy so-called guaranteed investment contracts from an insurance subsidiary of Los Angeles-based First Executive Corp. Officials were tempted by the attractive yields that the GICs guaranteed. And at the time, many of the issuers feared that rising interest rates would make it more expensive to borrow at a later date. But it turned out the GICs were backed largely by junk bonds. And as the value of junk bonds has plummeted, so did the value of Webb's bonds.

She isn't alone. Hundreds of small investors, as well as banks, thrifts, and insurance companies, purchased similar instruments. Unsuspecting investors bought $1.85 billion worth of them. Now, as the price of the junk-backed bonds slides, investors are howling. Many have filed suit against Drexel, First Executive, and the municipal issuers. And several states have opened investigations.

Moreover, investors fear that they may end up losing their money regardless of the outcome of the suits. Fi Executive Chairman Fred Carr invest heavily in high-yield bonds during t heyday of the junk market. Now th the market has collapsed, there's mou ing concern that First Executive m not survive. And municipal issue aren't liable if the firm defaults.

HIDDEN RISK. The municipal securit that are now leaving such a wide swa of devastation in investment portfol initially received an enthusiastic rec tion. In the wake of the Tax Reform A of 1986, which eliminated the tax-fr status of income from many types municipal bonds, Drexel executiv spent much of their time dreaming innovative instruments that they co sell for local governments. To provid slightly higher yield than traditional m nicipal bonds, Drexel came up with plan to funnel the proceeds from taxa bond issues into high-yielding jun Many investors now say they didn't re ize that the fate of their investment seemingly solid municipal bonds w linked to junk.

Drexel teamed up with regional b kerage firms—such as Morgan Keeg & Co. in Memphis and Howard, W Labouisse, Friedrichs Inc. in New leans—to sell the instruments to lo borrowing agencies. So popular were bonds that even First Boston and P

ential-Bache Capital Funding did a few eals of their own.

To sell the bonds, Drexel played heavi- on civic pride. Executives of the firm ressed that such bonds could be used raise money for future projects, such low-income housing, industrial devel- ment, or for inexpensive farm loans in ral areas. And local officials were ick to sign on. Indeed, the Memphis using board was so convinced of the erits of the bonds that agency officials asted of their plans to ficials around the state. A look at the fat fees at such deals garnered st explains the excite- ent. In the summer of 86, local brokers flocked join the Memphis ealth, Educational & using Facility Board's gest offering ever. And y not? Drexel and the ner underwriters were lling down $3.4 million in es. Executive Life got a 25,000 fee. Even the gov- ment agencies were cing it in: The Memphis ard got a $1.4 million fee doing the deal, which it ed to fund local housing. The government agen- s saw other benefits as ll. At the time, many of- ials were fearful that in- est rates were headed higher, and nicipalities saw the bonds as a way of sing funds at reasonable rates. In- ed, issuers had no specific projects in nd when they floated their bonds. And deals offered by First Executive obli- ed officials to keep the bulk of their nds in GICs for as long as 10 years or a stiff withdrawal penalty.

EET SPREAD. The municipal boards re rewarded for their patience. Yields the GICs were slightly higher than the lds on the bonds the encies first sold to public—so they ofited from the read. For example, mphis earned 8.91% its GICs while paying y 8.68% on the $400 lion in bonds it is- d. The spread helped the fees to do the l. Marvin Palmer, a mber of Memphis' using board when the nds were issued, told Memphis *Commer- l Appeal* earlier this r: "I thought it was ner ingenious."

ll of this was spelled in the prospectuses for the municipal bonds. But the offerings, which didn't have to be registered with the Securities & Exchange Commission, avoided mentioning how the GIC money would be invested. Indeed, everyone was happy—until junk-bond prices plummeted and investors saw the value of their bonds nose-dive by more than 50%. Then they began to understand the fine points of the bonds they had purchased. Says Memphis widow Webb: "I'm one of the suckers."

FIRST EXECUTIVE'S JUNK MUNIS OF 1986

Issuer*	Amount Millions	Purpose	Rate Percent	Current price**
HEALTH, EDUCATIONAL & HOUSING FACILITY BOARD, MEMPHIS	$400	Housing for poor, elderly, handicapped	8.68%	$42
SOUTH EAST TEXAS HOUSING FINANCE CORP.	300	Multifamily housing	8.60	42
LOUISIANA AGRICULTURE FINANCE AUTHORITY	300	Farm loans	8.25 8.80	42 42
ADAMS COUNTY, COLO.	300	Economic development	9.00	42
EL PASO HOUSING FINANCE CORP.	200	Multifamily housing	8.88	42
NEBRASKA INVESTMENT FINANCE AUTHORITY	200	Farm loans	8.34 † 9.50 ‡	46 39
LOUISIANA HOUSING FINANCE AGENCY	150	Low- and moderate-income housing	8.61	40

*10-year issues due in 1996 **Price per $100 face value of bonds
†7-year issue due in 1993 ‡20-year issue due in 2006

DATA: PROSPECTUSES, LOUISIANA HOUSING FINANCE AUTHORITY, FIRST ALBANY CORP.

There may be more bad news to come. The word on First Executive gets more dire by the day, and investors are fearful that the company may default on its GICs. Last year, as the junk market worsened, the insurer lost $776 million. The company's junk-bond portfolio, which has a face value of $6.6 billion, has a market value of only $5.6 billion. Worried customers of its Executive Life Insurance Co., which issued the GICs, cashed in more than $2.6 billion of policies and annuities during the first half of 1990. And California insurance regulators have been camped out at First Executive's offices since late January, monitoring the company's health.

First Executive insists that the insurer has enough cash to handle redemptions and that Executive Life is financially strong. As for the controversial municipal bonds, First Executive says all interest payments have been, and will be, made on time. The latest payment on the Memphis bonds is due Sept. 15. Drexel, which filed for bankruptcy in February, declines to comment.

As for the municipal issuers, officials defend their action. And there is no suggestion that any local officials profited directly from the bond issues. Surprisingly, there haven't been any local political repercussions. Some issuers are trying to make amends by helping investors recoup some of their principal.

Still, the lawsuits are piling up. Bondholders are suing Drexel and other underwriters, Carr, First Executive, and agencies in Texas, Nebraska, Tennessee, and Louisiana. The suits allege that investors were fraudulently led to believe that the bonds would fund farm or housing loans. Instead, they claim, the bond sales were simply a scheme masterminded by Milken to sell more junk bonds. In the case of Memphis' housing issue, none of the proceeds ever went into housing. First Executive won't comment on the suits, nor will municipal issuers.

LOCAL PROBES. Meanwhile, the deals have attracted government scrutiny. Tennessee Attorney General's office is interviewing unhappy investors, Louisiana's Attorney General is probing local bond issues, and the Nebraska legislature's Banking, Commerce & Insurance Committee is looking into its state's bond issue.

It isn't the first time that regulators have studied these bond deals. The first quibble with the municipal-bond GICs came from the California Insurance Commission in 1988. The commission contended that state law didn't allow insurers to issue GICs funded with the proceeds of municipal bonds. First Executive disagreed with that interpretation. Nonetheless, the insurer helped lobby for a new law in 1988 that allowed California insurers to make such deals. The law wasn't retroactive, so California never forced Executive Life to halt the 1986 deals or undo the GICs.

Now, bondholders face a grim choice. Either they sell at hefty losses or pin their hopes on First Executive's risky survival. Almost certainly, more investors are destined to join Sara Webb in the ranks of those who lost a pile in Milken's junk-bond market. Their only consolation: If their lawsuits succeed, they will take the brokers and government agencies that sold the bonds down with them.

By Kathleen Kerwin in Los Angeles, with Erik Milstone in Memphis

CARR: LAWSUITS ARE PILING UP

INVESTIGATIONS

TURNING UP THE HEAT ON THE BOILER-ROOM BOYS

The states get more federal backup against penny-stock scams

It's becoming a jungle out there for fast-talking penny-stock promoters. During the 1980s, they sold billions of shares in fledgling companies trumpeting big plans for everything from AIDS cures to windmill farms. The promoters wound up raking in huge profits, while legions of investors got stuck with worthless stock in enterprises whose plans proved speculative at best.

But now, more and more promoters are facing hefty fines and jail as an enforcement crackdown begins taking effect. The Securities & Exchange Commission formed a task force, and many states, such as Colorado, have toughened their laws. Most important, the U. S. Justice Dept. is following up the civil cases brought by securities regulators with criminal charges. While penny-stock fraud has always followed boom-and-bust cycles, the enforcement squeeze could make this a bust cycle the business won't forget (table).

CRIMINAL ELEMENT. F. D. Roberts in Paramus, N. J., certainly felt the heat. Since the firm shut down in February, 1989, under pressure from regulators, 26 officers and brokers have pleaded guilty to criminal charges of fraud and stock manipulation. Assistant U. S. Attorney Joseph G. Braunreuther calls Roberts "a $60 million-plus fraud. Victims have lost money set aside for college educations and retirement."

The case took an important new twist on Sept. 4, when former F. D. Roberts Chairman Leonard Tucker pleaded guilty to racketeering—the first time such a charge has stuck for a major penny-stock firm. In return for the plea and an agreement to cooperate, prosecutors agreed to recommend a reduced sentence—to a maximum of four years, down from a possible 20. The criminal element in Roberts may go deep: Some former officers told the court that the brokerage had ties to organized crime. Tucker's attorney says the former chairman "knows nothing" about any organized crime connection.

Another civil-criminal one-two punch appears to be brewing in the case of Power Securities Corp., a defunct Las Vegas firm. Power's exploits stood out even in very fast company (BW—Nov. 20, 1989). The SEC said that salesmen were directed to guarantee investors' profits—on paper. Later, investors found it difficult to cash out. Brokers told BUSINESS WEEK that colleagues who strayed from the company line sometimes found their desks chainsawed. On Sept. 6, the SEC charged Power Chairman Richard T. Marchese and 21 others with fraud and manipulation.

The SEC claimed that Power defrauded investors out of more than $20 million, making it one of the agency's largest penny-stock prosecutions. To put more teeth in its civil penalties, the SEC is seeking treble damages based on charges of insider trading. That's the first time insider trading has figured in a major penny-stock case, says Joseph I. Goldstein, head of the SEC task force. According to sources close to the investigation, a Denver federal grand jury is expected to hand down indictments by yearend. Marchese's attorney plans to "vigorously contest" all charges.

'PREMATURE.' Regulators are beginning to nip penny-stock fraud in the bud with new trading initiatives. For example, penny-stock prices traditionally are quoted in the "pink sheets"—paper lists circulated among dealers. Many dealers are abandoning the pink sheets with the aid of the National Association of Securities Dealers. In June, the NASD began an "electronic bulletin board," patterned after NASDAQ, for pink-sheet issues. With prices displayed on a highly visible computer system, investors are getting better deals. Why? Competition is forcing dealers to reduce their enormous markups, says Colorado Securities Commissioner Philip Feigin.

Congress is also preparing to beef up the SEC's already potent arsenal. On July 23, the House passed a bill that would give the commission more power to bar penny-stock promoters from the securities business and to impose stiffer disclosure requirements. The Senate is likely to pass comparable legislation.

Can such actions really curb fraud? The number of suspicious firms seems to be diminishing, says Feigin, "but it would be extremely premature to declare victory." Even if penny stocks fall out of favor with telephone boiler rooms, he notes, salespeople used to making $20,000 a month have a strong incentive to push something. Indeed, enforcement officials see a resurgence in fraud involving municipal bonds and government securities. No amount of enforcement action will ever make an investor's healthy skepticism obsolete.

By David Zigas in New York with Gail DeGeorge in Miami

A REGULATORS' HIT LIST

Firm/Headquarters	Date	Action
INVESTORS CENTER Hauppauge, N.Y.	1/90	Former Chairman Anthony Stoisich barred from securities business, pays $450,000 fine
STUART-JAMES Denver	5/90	Pays $2 million fine to NASD; agrees to stop selling penny stocks
MARSHALL DAVIS Denver	6/90	Former Chairman Rene Philippart begins jail term, following guilty pleas for fraud, manipulation
BLINDER ROBINSON Denver	7/90	Following fraud charges, files for protection under Chapter 11 of federal bankruptcy code
POWER SECURITIES Las Vegas	9/90	Former Chairman Richard Marchese charged by SEC with fraud, manipulation
F.D. ROBERTS Paramus, N.J.	9/90	Former Chairman Leonard Tucker pleads guilty to racketeering

DATA BW

Chrysler Ranked Highest in Customer Satisfaction Among American Car Manufactur

DETROIT–A survey just released by J.D. Power and Associates, an independent research firm, shows that Chrysler has the highest customer satisfaction of any American car comp... The stud... known in the auto industry as CSI, or Customer Satisfaction Index, reflects owners' experiences with both car and dealer in the fir... 14 months of ... to mak... total mix... clear su... Chry... Fo...

1987

Chrysler Again Ranked Higher Than Ford or GM in Customer Satisfaction.

(Continued from Page A1)

second consecutive year, Chrysler outranked both Ford and GM in customer satisfaction with overall product quality and dealer service. A spokesman for the company was quoted as saying, "Frankly, we're not surprised at the outcome. When C... man Lee I... ...1983 th... what matters most to Ameri... Some 23,000 owners of do... cars reported on such cr... cern as problems du... customer hand... repair a... i...

1988

Chrysler Ranked Highest of Any Domestic Carmaker in Customer Satisfaction Again.

By LELAND ROSEMOND

For the third year in a row, Chrysler nudged out Ford and GM as the American carmaker with the highest levels of customer satisfaction. In a su... public today by J.D. Power a... one of the auto in... independent... dealer's ability to fix problems on the first visit and number of repair proble... encountere... to carm...

1989

Again, Chrysler Ranked Highest in Customer Satisfaction of All American Car Manufacturers.

DETROIT–For an unprecedented fourth straight year, Chrysler outranked both Ford and General Motors in customer satisfaction, according to a study released today by the independent... testing firm of J.D. Power and A... ates. The report is based on... more than 25,000 o... purchased new... study, called "1987-1990 CSI: customer satisfaction with overall product quality and dealer service for 1986-1989 passenger cars," clearly demonstrates Chry...'s performance for the last four ... reveals where pro... ...ith a gen...

1990

OW THEN, WHICH NEW CAR DID YOU SAY YOU'RE CONSIDERING?

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* This 1990 study was conducted by Diagnostic Research Inc., among Fortune 1000 MIS managers and computer users familiar with Macintosh and MS-DOS systems. Call and we'll send you a copy.

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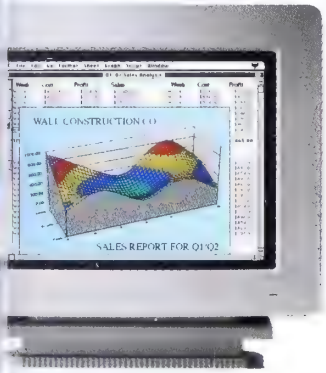

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CORPORATE FINANCE

JAPANESE LINKS: ISUTANI'S PEBBLE BEACH DEAL HAS SOME PRETTY TANGLED TIES BEHIND IT

THE STEALTH INVESTOR WHO SNAGGED PEBBLE BEACH

Secrecy is the hallmark of Japanese dealmaker Minoru Isutani

When Minoru Isutani bought California's fabled complex of four golf courses at Pebble Beach, it was the latest addition to an international golf empire. The Japanese businessman, who owns nine courses in his links-loving homeland, is planning three other golf complexes in the U. S. (table), plus a Las Vegas casino. That's on top of two courses in France and one in Austria.

Don't expect more than the sketchiest explanation about the 50-year-old Isutani's plans, though. Secrecy is a hallmark of the controversial dealmaker's style. In buying Pebble Beach Co. from a partnership headed by financier Marvin Davis for about $940 million, he has sought to cloak the acquisition behind a hodgepodge of corporate ownerships. A spokesman for Cosmo World Corp., part of his privately held conglomerate, says it no longer owns Fort Worth-based Ben Hogan Property Co., the official buyer of Pebble Beach. The spokesman says Ben Hogan Property was sold to American investors a month ago. But David B. Hueber, president of Ben Hogan Property, says Isutani still owns the company, whose affiliated Ben Hogan Co. makes golf clubs and clothes.

Perhaps Isutani's lieutenants are trying to avoid the uproar that hit Mitsubishi Estate Co., buyers of a controlling interest in Rockefeller Center last year. Mitsubishi Trust & Banking Corp. lent Ben Hogan Property a big chunk of the purchase price, but because the money went to a U. S.-based company, "there's no Japan-America conflict here," says bank spokesman Tokuo Bamba.

The bid to avoid the limelight over the Pebble Beach purchase is understandable given previous Isutani dealings that caught the public eye. Consider his friendship with former Nippon Telegraph & Telephone Chairman Hisashi Shinto, who pleaded not guilty in his ongoing trial in the Recruit Co. insider trading scandal that toppled many Japanese leaders. Although Isutani hasn't been charged with any crime, his ties to Shinto have complicated his quest to get a gambling permit for his Las Vegas hotel. Isutani spokesman Tadahisa Tsuchiya says the application has run into trouble with Nevada gaming officials although the officials won't comment.

FREQUENT FLIER. Isutani also has other problems on two continents. In California's San Fernando Valley, he wants to build a golf course on a flood plain—a project that has aroused environmental opposition. Isutani aide Steven Timm says the project is ecologically harmless. Back home in Japan, some members of his Sakawa Royal Country Club and Kannami Springs Country Club complain that he sold 10 times the memberships he advertised, making it almost impossible to play on the crowded courses. Isutani aides deny that.

Isutani, who declined to be interviewed for this story, keeps a frenetic pace. He takes day trips to Hawaii, a seven-hour flight from Tokyo. As he tours the sites where associates say he is considering new golf courses, his personal secretary can't always track him down. Even his wife sometimes can't pinpoint which country he's in. The Osaka-born Isutani made his first fortune in the refrigeration-equipment business, then went into golf-course development. One associate says playing golf with politicians and celebrities is nearly a full-time job for Isutani, who has a respectable 10 handicap.

Cosmo officials say they have modest plans for Pebble Beach. They may create another course on undeveloped land on the 5,300-acre property, which contains two luxury hotels as well as golf courses. But they say they intend to leave the world-class Pebble Beach Golf Links, site of the 1992 U. S. Open Championship, alone. Further, they say they have no plans to offer jaunts to Japan's legion of golf fanatics.

If so, it means Isutani will pass up a terrific opportunity—something other in the golf business don't believe he will forswear forever. In densely populated Japan, where land scarcity limits available fairways, enthusiasts wait for weeks to play. "It's the dream of every Japanese golfer to play overseas," says Akihiro Furukawa of JTB Global Club. For Isutani, that's a dream come true.

By Karen Lowry Miller in Tokyo, with Ronald Grover in Los Angeles and Wendy Zellner in Dallas

ISUTANI'S U.S. GOLF GAME

CALIFORNIA

Recently bought Pebble Beach complex through his Ben Hogan Property Co. Faces environmental opposition on planned $30 million golf course on flood plain in San Fernando Valley

NEVADA

Building $200 million golf course and hotel on 1,881-acre tract outside Las Vegas, but state officials may turn down request to open a casino

HAWAII

Co-developing $357 million golf and hotel complex on 1,100-acre site along Kona Coast

DATA BW

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BY JEFFREY M. LADERMAN

MARKET STATIC MAY BE HIDING A BROADCAST BARGAIN

A year ago, Ackerley Communications hit an all-time high of 12. Today, Seattle-based Ackerley sells for less than $3 a share. Is this broadcasting and advertising company in trouble? Not at all. Business may be a little soft in a few areas, but cash flow continues to grow, and meeting interest payments is no sweat.

Even as the stock faltered, Chairman and controlling shareholder Barry Ackerley continued to add to his far-flung empire, which now includes three network-affiliate TV stations and two independents; six radio stations; billboard advertising in Florida, Massachusetts, and the Pacific Northwest; and the country's largest operator of airport display advertising. The company also owns the Seattle SuperSonics basketball team and has applied for a National Hockey League expansion team. In addition, it has the go-ahead to build a new $100 million arena for the Sonics that could also house the hockey team.

So why the plunge in the stock? For starters, the market has soured on highly leveraged companies. Then, the soft advertising climate turned the tide against media issues. Finally, the latest market rout devastated small-cap stocks. Ackerley is small, leveraged, and in the media game.

SKEWED VIEW. As with most leveraged media companies, Ackerley runs in the red, and the balance sheet shows a negative net worth. That didn't bother investors in the '80s, but it's anathema now. Typically, media companies have been valued on cash flow and assets.

In that light, Ackerley is alluring. Michael Seyfer, president of Starmont Capital Limited, values the broadcast properties at $165 million, the outdoor and airport advertising at $245 million, and the SuperSonics at $60 million. Subtract Ackerley's $235 million in debt, and "you still get a net asset value of $15 [a share]," says Seyfer. "Too low," says Harvey Sandler, a money manager who specializes in media issues. He puts Ackerley's asset value somewhere north of $20 a share.

Of course, for shareholders to reap such rewards, the company must sell assets or itself. Binkley Shorts of Wellington Management—the largest institutional holder, with 300,000 shares—wouldn't mind if the SuperSonics were sold to pay down debt, but he doesn't expect that. "They don't do the quick and expedient thing," says Shorts.

"We've never sold any properties and are not looking to sell now," says Ackerley, who owns 75% of the stock. "We're committed to building the value of our assets. That's the best strategy." For those who can wait, the stock may turn out to be an easy lay-up.

A DOUBLE-DIP CABLE DEAL

Investors are flipping by cable TV stocks this year. But Andrew Wallach of Cumberland Associates sees a unique opportunity in United Artists Entertainment, a $1.6 billion cable and movie theater operator.

Here it is: An investor buys UAE common, now trading over the counter at $13 a share—$10 below the 52-week high. For each share, the investor must also purchase a right issued by Tele-Communications, the nation's largest cable operator, which owns a controlling interest in UAE. Each of those rights, now trading at 3, gives holders the opportunity to sell their shares to Tele-Communications for 90% of the private-market value in January, 1992. That value would be the average of two independent appraisals.

Dennis Leibowitz, the cable guru at Donaldson, Lufkin & Jenrette Securities, predicts that under a "worst-case scenario," the shares might go for $21 apiece. But that's still a 31% return for a 16-month investment. A more likely outcome, he believes, is in the $23-to-$25 range. And shareholders who don't like the 1992 offer can hold on. The rights can be exercised again with a new appraisal in January, 1995.

DID THIS OIL BUY SLIP BY YOU?

Last spring, when oil was well below $20 a barrel, American Exploration, a small oil-and-gas company, traded at 3½. Today, oil commands more than $30 a barrel, and this American Stock Exchange issue trades at 4. "I suspect the market is missing something here," says Phillip Pace of Smith Barney, Harris Upham.

The name misses something, too. American Exploration is no wildcatter. "When we started, I thought we would be exploring," says founder, Chairman and CEO Mark Andrews. "But when the industry went into disarray, I saw that buying reserves was cheaper."

Andrews is still doing well with that strategy. On Aug. 29, he completed the acquisition of Hershey Oil for $46 million in cash and stock, a deal that was cut last May. That allowed AE to pick up proven reserves at $3.20 a barrel for oil and 50¢ per thousand cubic feet (Mcf) for natural gas. "That's about the lowest price they've ever paid for assets," says analyst Keith Benjamin of Silberberg Rosenthal.

American Exploration's financing vehicles are limited partnerships sold mainly to institutional investors, including New York Life Insurance and the IBM and General Electric pension funds. (New York Life is also a 20% shareholder and a lender.) In a partnership, AE puts up 10% of the investment and, for managing the partnership, gets expenses plus 13% of the revenue. The limited partners get 87% of the revenue until they've recouped their money, plus a 13%-to-14% return. Then the company's take shoots up to 35%.

That kicker is crucial. The faster and higher prices go up, the sooner the partners get paid and AE's stake jumps. "Rising prices make everyone's barrels more valuable," says Andrews, "but we also get more barrels."

Analyst Robin Shoemaker of Shearson Lehman Brothers, who is bullish on the stock, thinks prices for smaller energy producers have stalled because their reserves are mostly in natural gas—and gas prices, around $1.50 per Mcf, have barely budged. But Andrews notes that while AE's reserves are 75% gas and 25% oil, current production is more than 50% oil—and that will have more impact on near-term revenues.

LECOMMUNICATIONS

GTE: RIGHT MOVES, WRONG RESULTS

Why a sweet deal to buy Contel hasn't yet impressed Wall Street

James L. "Rocky" Johnson is baffled. For the past three years, he has been slashing jobs and reorganizing TE Corp.—moves aimed at making it a tter competitor in the phone business id restoring its reputation on Wall reet. Two months ago, he pulled off hat would be a coup in ıy chairman's career: stock deal then valued $6.2 billion to buy ontel Corp. If approved by shareholders, e largest phone merger in history will make E the nation's second-gest cellular operator d the fifth-largest mer of conventional al phone systems. st of all, Johnson netiated a price that me Contel executives vately concede is a rgain. This kind of ws should give GTE's ck a boost, even in a ar market, right?

Not quite. So far, hnson hasn't been le to convince Wall reet of the genius of handiwork. Before e deal, GTE's stock d been trading slightahead of its phone brethren in 1990. t since the news was announced on y 12, GTE's stock has dropped fast, ing about 20% of its value. With Mid-East tensions roiling the markets, ıer phone stocks have dropped, too—less than 10% (chart). "It's been very strating," admits Johnson.

A HURRY. What's the rub? After nding his first two years as chief extive reemphasizing GTE's core local ne business—and downplaying high- ventures such as phone equipment d long-distance—Johnson suddenly med to be taking a flyer. To Wall eet, swallowing Atlanta-based Contel ile still working through the earlier rganization seemed a daunting man- ement challenge. And the massive ve into cellular with the Contel deal fell flat with investors, who have been wary of cellular-phone stocks all year. Says Jennifer Uhrig, an analyst at Fidelity Investments, one of GTE's largest shareholders: "The deal introduced an element of uncertainty."

GTE management admits that the deal will dilute earnings by 12%—at least for now. But Johnson is in a hurry to turn the $17.4 billion Stamford (Conn.) company into a telecommunications outfit with a full array of services, including cellular. "You better get your position early or you ain't going to get it," says Charles R. Lee, GTE president. In cellular, GTE has declared its intention to be one of two nationwide providers of service, along with McCaw Cellular Communications Inc. Contel will increase GTE's base of cellular customers by 28%. In addition, Contel's service area is made up of 22 million potential subscribers.

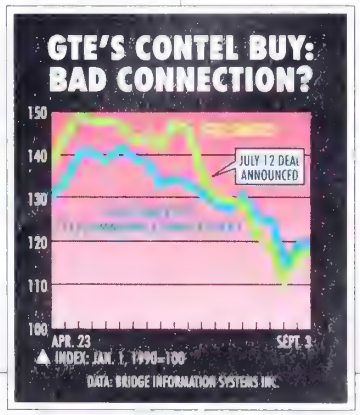
In local phone service, Johnson believes that the Contel merger can help GTE squeeze out higher returns. More than 80% of Contel's customer lines are tied into sophisticated digital switches—the kind that GTE is buying at $500,000 or more apiece for its own system. Now, GTE can scrap plans for new switches in territories adjoining Contel properties, says GTE Telephone Operations President Kent B. Foster. Repair-truck fleets and customer service centers can also be combined. Foster figures on big savings, and much of that will go to the bottom line, since new "price cap" regulations in many states allow phone companies to pocket part of the savings from increased efficiency.

GTE is still hacking away at its own costs. It's in year three of a five-year program to shave $1 billion from annual overhead, partly by shedding 14,000 employees. In the past two years, the company has gone from 63 business customer centers to 44. Repair centers have gone down from 39 to just 8. And more than 6,000 employees have been trimmed from the payroll. That number will hit 7,000 by year-end. "People are not sure of what's in store for them," says Albert S. Bowles, southern area director for GTE's biggest union, the Communications Workers of America: "It's a scary position."

Morale already appears shaky. In a recent survey, employees' ratings of their company dropped in all 29 areas surveyed. Most troubling: Workers felt that they couldn't discern the company's direction, and commitment to the organization had fallen off. Foster hired consultants, who came back with the somber message, "We've got a major problem on our hands," he says. The consultants reported that it could take 10 years to get GTE's employees thinking more competitively. Foster says that he is trying to speed up that change.

Blending Contel's

JOHNSON: THE MULTIBILLION-DOLLAR MERGER WOULD MAKE GTE NO. 2 IN CELLULAR



freewheeling culture with GTE's more staid ways could be a refreshing tonic—or it could complicate matters even further. "Contel has always been a maverick," brags its chairman, Charles Wohlstetter, the octogenarian who started the company with two employees in 1961. Wohlstetter says he expects Contel's people to be "a breath of fresh air" for GTE. But some of Contel's own people are breathing fire—over the bargain-basement price that their chairman settled on. One vice-president, Stephen P. Welsh, fired off a letter on Aug. 1 charging Wohlstetter with playing *Let's Make a Deal* at the expense of shareholders and employees.

After the merger, Contel operations could face a much more hostile environment. As an operator of small properties in rural areas, Contel has profited from light regulation. Now, public utility commissions in California and other states say they will increase scrutiny of Contel properties as they become part of GTE. Probing regulators may be held off until Contel's telephone operations legally merge with GTE's over several years, Foster says. That delay, however, would postpone the cost savings from a combination.

ROADBLOCKS. Johnson's biggest problem—at least on Wall Street—may be his sudden emergence as the No. 2 player in cellular. Wall Street is wary of the industry now. Because it's so new, nobody knows how demand will be affected by a recession. And, with the best customers signed up, new recruits are less lucrative. The average usage per customer is dropping by approximately 6% a year as GTE taps more marginal subscribers, concedes Terry S. Parker, president of GTE Mobile Communications.

Cellular is also being threatened by other wireless services such as personal communications networks (PCNs). Such phones may still be three to six years away from eating into the cellular market, says J. Shelby Bryan, chairman and chief executive of New York-based Millicom Inc., a PCN pioneer. But look out, he warns: "We're trying to shorten that period." GTE's Parker rejects any notion that competing technology will work well enough to carve much off cellular's returns any time soon. "There's an awful lot to be proven," he says.

Indeed. But that's what Wall Street is saying about GTE's plans as well. And therein lies Rocky Johnson's frustration. Like the new phone technologies, his ability to carry off the Contel merger and manage the expanded GTE won't be taken on faith.

By Todd Vogel in Stamford, Conn., with bureau reports

INFORMATION MANAGEMENT

LOOKING FOR A JOB? YOU MAY BE OUT BEFORE YOU GO IN

Background checks are nosier now, and harder to fix when wrong

James Russell Wiggins thought he had finally made it. Last December, the 36-year-old father of four landed a $70,000-a-year sales job at District Cablevision in Washington, D. C. But six weeks later, a routine background check showed that Wiggins had been convicted of cocaine possession. Because he hadn't told Cablevision about it, he was fired. But Wiggins says he didn't lie to Cablevision: "I never went before a judge in my life." It turned out that Equifax Services Inc., the company that investigated Wiggins' past, had goofed: It pulled the criminal record of James *Ray* Wiggins.

Wiggins was the accidental victim of an increasingly common practice—combing data bases to find information on job applicants. While employers face rising costs from thefts and other crimes committed by workers, federal and state laws curtail what they can ask applicants. So, to get a better handle on job candidates, businesses buy records—which may include inaccurate information and may not tell the whole story. "Traditional avenues for checking workers out have been shut down," says Lee T. Paterson, an attorney specializing in employment law. Polygraphs are illegal, and fear of libel suits often restrains previous employers from giving negative references.

Data bases fill the gap. Via computer, fax, and phone, employers check credit files, employment and school records, and motor-vehicle histories. They find out if an applicant has collected large medical claims or workers' compensation. And they learn things they're not supposed to know: for example, that a person has been arrested, even if he was later acquitted or the charges dropped.

BLIND HIT. In some cases, employers can the data bank before interviewing an applicant. If the information is damaging the would-be employee isn't hired. "Decisions become data-driven and not values driven," says David W. Foerster Jr., executive director of The Resource Center an Atlanta-based employment counselor Foerster says that employers often turn away candidates if they see bad credit records or large insurance claims—even if such information has little bearing on an applicant's abilities or his present situation. "He is punished even if he's rehabilitating himself," admits a personnel manager at an electronic-component company that buys employee data.

Employers have good reason to do everything they can to weed out potential problem workers. Employee theft is a $40 billion-a-year headache, estimated the U.S. Chamber of Commerce. What's more, employment attorneys say, claims against companies whose workers commit crimes are rising. And pre-employment screening works: During most of the 1980s, annual turnover at a 700-outlet convenience-store chain was 300% and losses from employee theft were $

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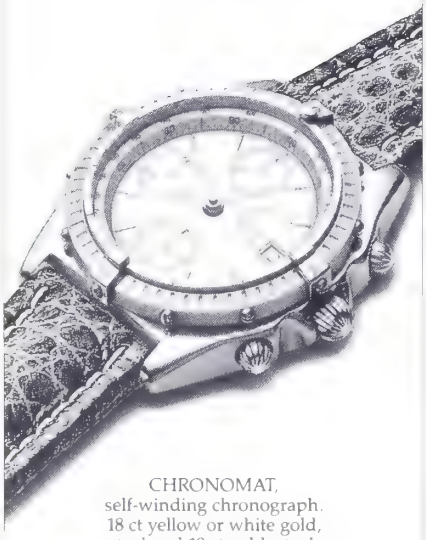

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million. Then, the company began checking the backgrounds of job applicants with records from Personal Employee Profiling Inc. Now, yearly turnover is 97%, and theft is down to $1.8 million.

Providing employee data to companies ranging from Motorola to Mrs. Field's to Bic to Bank of Boston is a booming business, say data vendors. Sales of pre-employment data are growing as much as 75% a year for some suppliers. The larger players—Equifax, Fidelifacts Metropolitan New York, and Apscreen, among others—provide more than raw data. They mix information from various data bases and produce summaries that describe the applicant's financial condition, criminal and driving records, and business relationships.

Despite the occasional mix-up, the big data companies have earned a reputation for thoroughness. They remind clients that their "data is just one part of the pre-employment investigation," declares David Karas, Equifax' marketing manager for pre-employment screening. The rest, he says, is "creative interviewing to find out what makes an applicant tick."

A background report from companies such as Equifax can cost thousands for a corporate officer or as little as $100 for a lower-level worker. But employers with high turnover, such as construction companies, fast-food outlets, and retailers, find that too costly. That's where cut-rate data sellers come in. For just a few dollars per report, they assemble raw, unchecked data from credit bureaus, motor-vehicle departments, courthouses, and other sources. Problem is, some of the information may not be legal to use when hiring (table). "These data cowboys worry me," says Apscreen President Thomas C. Lawson, who fears that a backlash against them could prompt restrictions on the sale of legitimate pre-employment information.

So far, no such backlash has occurred, and companies continue to supply employers with data that the law says they shouldn't see. Information Resource Service Co. (IRSC) in Fullerton, Calif., for example, sells lists of arrests that ended in acquittal, discharge, and no disposition. That data may be of interest to a prospective employer, but, warns Jo Millan, California's deputy labor commissioner: "It's illegal for employers have." Since few will hire someone wi an arrest record—even if no convicti followed—states require that employe ask only about convictions.

Perhaps even more troubling than a rest data bases are those that track e ployees who have filed for workers' co pensation. A number of unemploy construction and oil workers claim th such a data bas kept by Employe Information Se vices Inc. (EIS) Gretna, La., is b ing used to de work to those w have been injur in the past. Erne Trent, a Pennz Co. roustabo who has 15 yea experience, ripp his right arm an oil rig in 19 and collected wor ers' compensatio Since then, he h been turned dow for nearly 200 jo "I'm blacklisted says the Bossi City (La.) father nine.

If so, "that's il gal," says attorn Kenneth Pitre, who has represent some of these workers in suits agai their former employers. The law proh its businesses from refusing empl ment to a candidate because he collect workers' compensation. But some customers apparently ignore this. "I not going to hire the SOB who has ju sued somebody down the street [workers' compensation]," says Ki Fisher, president of King Fisher Mari Service Inc., a dredging company bas in Port Lavaca, Tex. Both EIS and IR say they can't control how their clie use the information they buy. Says counsel Rutledge Clement: "We have vendetta against injured workers."

Despite the problems, businesses likely to keep buying pre-employm data—even though personnel expe say they really don't need to. "They j have to relearn how to ask the ri questions," says attorney August quai. But for employers, it's far easie scan a list and read a report than to s through the legal mine fields posed b face-to-face talk.

By Jeffrey Rothfeder in New Y

WHAT DOES AN EMPLOYER HAVE A RIGHT TO KNOW?

Employers cannot ask a job applicant questions about:

- Age and citizenship
- Race and religion
- Lifestyle and children
- Marital status
- Arrests that did not lead to convictions

Employers can investigate an applicant's:

- Credit history
- Record of criminal convictions
- Moving violations and accidents
- Performance at previous jobs
- Workers' compensation claims
- Medical background

Note. Rules vary slightly in different states
DATA: SONNENSCHEIN, NATH & ROSENTHAL

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MANUFACTURING

A REVOLUTION IN STEELMAKING?

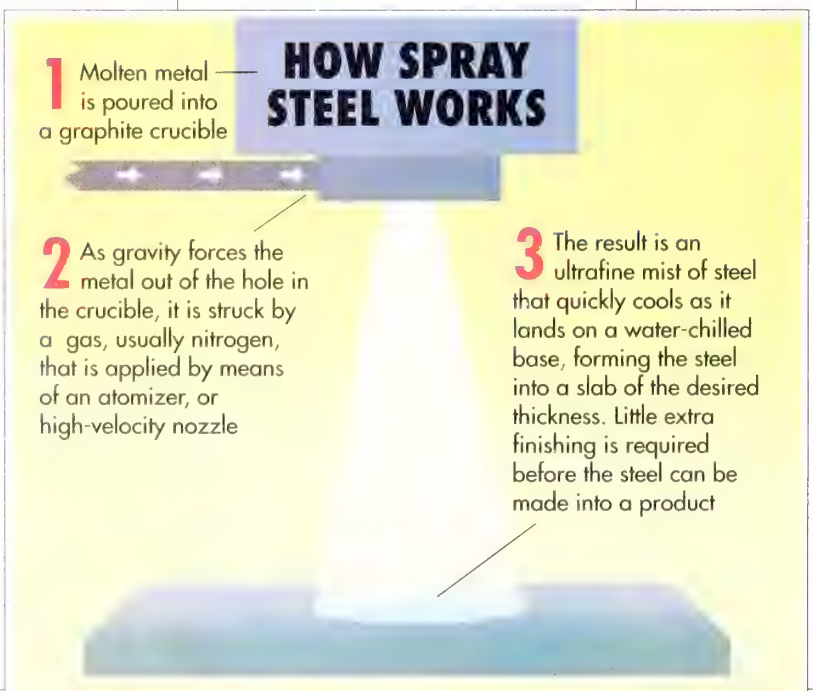
Spray steel could be the biggest advance since the blast furnace

Since 1860, the process for making steel has been one of the slowest-changing technologies in industrial America. Melting, pouring, cooling, and shaping everything from sheet steel for car bodies to beams used in bridges still involves up to 14 steps, performed in plants that today cost billions to build. But now, materials scientists are getting close to a breakthrough that could vastly simplify the making of most kinds of steel: The idea is to spray molten metal into sheets of the desired thickness, instead of rolling red-hot slabs flat, as a baker rolls dough. You could even spray metal directly into simple shapes. At least one pilot plant is being built, and if the process works, it could reduce steel production costs by up to 18%.

Spray steel is an extension of an earlier technology. Since the 1960s, mists of molten ore have been quick-cooled to make metal powders that can create superstrong metal alloys when fused together by heat and pressure. Then in 1970, British researcher A. R. E. Singer found a way to skip the intermediate step. His University of Swansea lab began making shaped metals from steel sprayed into molds, and a torrent of experiments followed. At Massachusetts Institute of Technology, for instance, Nicholas J. Grant, a materials science professor, has developed a method he says could match the output of continuous casters in today's steel plants. "We've enough evidence from the labs now to say this has a very high likelihood of success," says Grant.

His optimism is increasingly shared around the world. Sweden's Sandvik Steel, Japan's Sumitomo Heavy Industries, and General Electric all are cranking up projects. GE and Sumitomo are exploring spray processing to make everything from turbine disks for jet engines to long-wearing steel used in equipment that makes rods and wire. Sandvik liked the technology so much that it acquired Osprey Metals Ltd., the British company that commercialized Singer's work. And Texas-based Chaparral Steel Co. disclosed plans this month for a $6 million pilot plant to make spray steel.

GRANT: "A HIGH LIKELIHOOD OF SUCCESS"



DATA MASSACHUSETTS INSTITUTE OF TECHNOLOGY, BW

The goal is to avoid the interim ste involved in continuous casting, the pr cess used for 66% of U. S. steel produ tion. That turns out slabs that are inches thick, 3 feet wide, and 20 fe long. These are then heated and roll as many as nine times to harden t metal while making it as thin as a Cad lac's fender. By contrast, spray ste produces sheets—or shapes such pipes—that need little reworking. Elim nating slab reprocessing pares $50 $70 off the $400 production cost of a t of steel, says William Du Broff, the E ergy Dept.'s manager for spray-steel r search. That translates into perhaps $50 savings on the steel in a car, $5 that in a washing machine—big numbe when applied to high-volume produc Such savings exclude the cost of spray-steel plant, but are big enoug proponents argue, to swing the balan as old steel mills are upgraded or r placed.

FINE MIST. The spray-steel process is c ceptively simple. Molten metal is plac in a crucible above a water-cooled bas As gravity forces the liquid through hole in the crucible's bottom, the ste passes through a hollow, doughnu shaped nozzle that bombards it from sides with a gas that won't react wi steel, usually nitrogen. That produces fine mist, which hardens almost imme ately as it settles onto a sheet or mo

This approach eliminates several pr lems common to metals manufacturin The spray creates grain-size "mic structures" that help strengthen t metal. And because sprayed metals c quickly, they don't develop Christm tree-shaped weak spo called dendrites, th form in slower-cooli slabs. As a resu sprayed metals are le likely than conventio ly made steels to cra or grow brittle. And t ultrafine spray unifor ly dissipates the c that inevitably ge melted with ore, prod ing higher-quality m als—even from scr "Spray-formed mate als are much bet than materials that cast," says Libor Rostik, Chaparra vice-president for en neering.

Because spray st has been tried only o small scale so far, first use of it will be the low-volume prod

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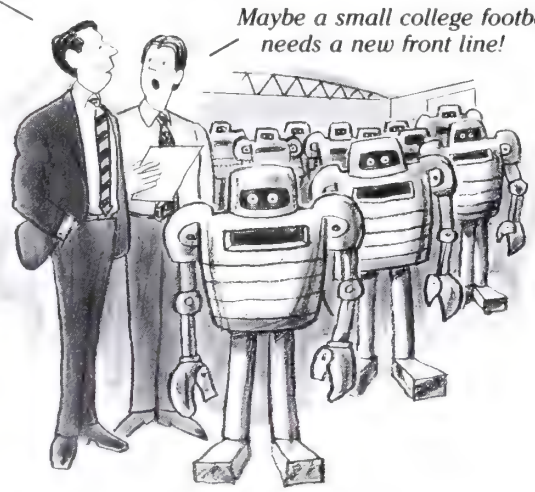

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tion of nickel- and titanium-based meta called "superalloys." These are need for critical work, such as making jet e gines, and rising demand for them h spurred GE Aircraft Engine Group a Howmet Corp., a maker of engine co ponents in Greenwich, Conn., to set spray-research programs. GE is spendi up to $2 million a year on the techn ogy. Compared with current metho "We think spray casting could cost the order of 30% less—or better," sa James C. Williams, manager of GE's e gineering materials technology laborat ries. Howmet looked into sprayed superalloys because of the high waste associated with conventional methods. Less waste "is the beauty of the process," says Robert L. McCormick, Howmet's spray-casting ventures manager.

SAMPLE SAVINGS

The impact from spray
Profit increase per uni

Automobile	$2
Washing machine	$
Metal door	$
Steel can	1

DATA: FRANK R. FIELD, M MATERIAL SYSTEMS LABOR

Still, the largest U. S. steelmakers a skeptical. The hurdle they see is tran ferring lab results to volume productio So far, neither researchers at MI Drexel University, and California Ins tute of Technology, nor manufacture such as Sandvik have run more than few tons of steel at once—vs. the tens tons that today's steel mills produce an hour. The issue has turned off co panies before: In 1985, Nucor Corp. Charlotte, N. C., abandoned a pilot spr project after failing to make the techn ogy work. Even Osprey Metals, the co pany in Neath, Wales, that has licens Singer's technology to 19 companies cluding GE, has confined most of its forts to low-volume production of allo

NEW NOZZLES. MIT's Grant thinks tha too cautious. The doughnut-shaped n zle that he and Osprey originally us limited the spray to narrow, cone-shap patterns, an approach that held do production volumes. But now, Grant h designed higher-capacity nozzles. Shap like bars, instead of circles, these "s ear" nozzles can easily be lengthened rain down sheets of metal mist. Ospr meanwhile, is working on a so-cal scanning nozzle—one that moves con uously and theoretically can process unlimited amount of molten metal.

That has some companies think big. Rostik, who will test Grant's nozz in Chaparral's pilot plant, says that i the process works, we think we can it at 100 tons an hour." At that r even the big producers might consi replacing their hidebound technology

By Gary McWilliams in Cambridge, M

REVOLUTIONARIES SEIZE AMERICAN CLASSROOMS

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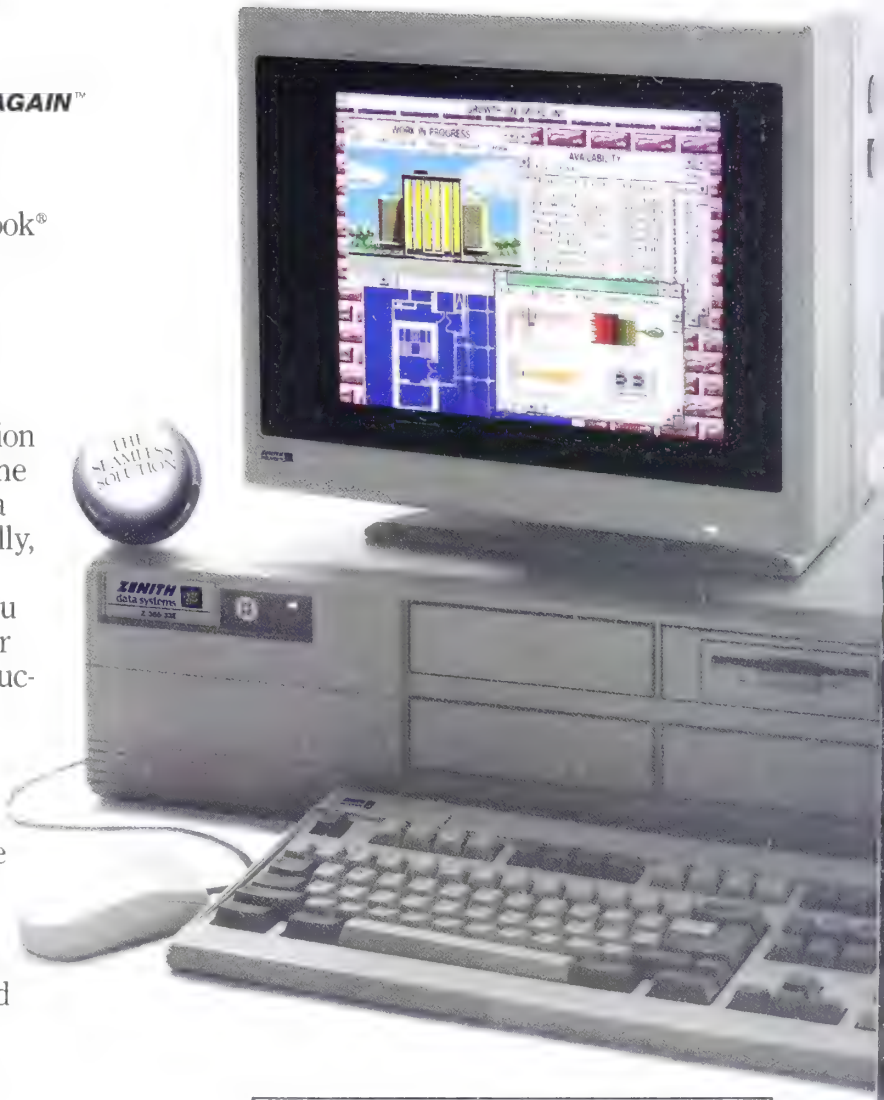

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ITED BY EMILY T. SMITH

ON, COLOR-BLIND ROBOTS OULD BE A THING OF THE PAST

Most robotic-vision systems distinguish objects by their shape. But try getting a robot to identify a blouse. Since the blouse can have innumerable shapes, a robot could spend hours trying to figure out what the object is that is draped over the bedroom chair. The task might be easier if robots could see in color instead of just black and white. So now, earchers at the University of Rochester are training an erimental robot to do just that.

Using a video-processing computer from Datacube Inc., the ot can instantly distinguish a box of, say, Frosted Flakes m corn flakes. Spotting the right color combination takes st a few milliseconds," says Christopher M. Brown, an ociate professor of computer science at Rochester. Three rs ago, the task was too expensive. But new image-process- computers can handle the job for about $60,000. If the cost computer power continues to nosedive, it should soon be sible to combine shape and color recognition. Then, Roches- s robot won't mistake a bottle of Liquid Clorox 2 for a can Progresso Eggplant Appetizer.

ILL THESE BUTTONS ELP SAVE THE RAIN FORESTS?

efore plastic, many apparel makers used buttons made from tagua, an ivory-like nut found in the rain forests of ador and Colombia that can be processed into products. w, with the forests threatened and imports of elephant y banned in the U. S., an environmental group and two hing makers are reviving the tagua-nut industry to save trees and the animals while improving rural economies.

onservation International (CI) is linking the Ecuadorians a California sportswear makers Patagonia Inc. and Smith Hawken Ltd., which will buy a million buttons from commu- es in northwestern Ecuador. Besides paying the producers 0,000 over two years for tagua-nut buttons, the companies also pay a licensing fee to CI. The $50,000 collected by CI in first year will be plowed back into the communities for keting of tagua products and conservation projects. CI es that tagua can eventually replace many ivory products, uding carvings and chess pieces. The tagua project, CI says, ne first of several expected over the next few years to find sumer markets for products from rain forests.

VACUUM THAT CAN CLEAN OMBS AND DRUGS OUT OF AIRPORTS

the next time you check luggage with an airline at curb- de and someone vacuums it before sending it into the minal, this isn't a fancy new service. The portable vacuum ner is really a collection device for a new detection system n Barringer Instruments Inc. in Morristown, N. J.

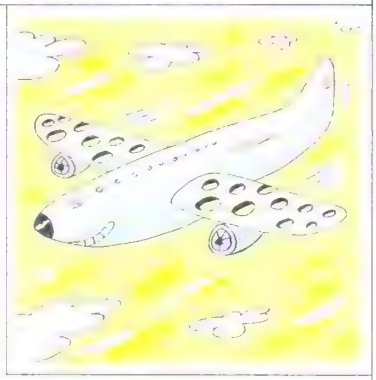
When explosives or illegal drugs are hidden inside luggage, there will almost always be some microscopic residue on the outside. The vacuum collects these telltale particles for analysis by Barringer's Ionscan system. The analyzer vaporizes the sample into ions and measures the speed at which the ions are attracted to a charged plate. Since the atomic weight of each specific ion determines its speed, the Ionscan system needs only a few seconds to identify illicit substances from a few trace molecules. "Rival systems are vapor detectors," says Barringer President Robert J. Melnick. They try to sniff out the chemical odors emitted by concealed contraband. That's tricky, especially with plastic explosives, which is why such equipment is more expensive than a $65,000 Ionscan unit. Development of the system was funded in part by the Canadian government and the U. S. Customs Service.

THIS TRANSPLANT TECHNIQUE MAY BE THE KEY TO CURING DIABETES

Researchers at the University of Pennsylvania Medical Center have cured rats of diabetes using a technique that could lead to better treatments for humans. A team led by Dr. Ali Naji, a professor of surgery there, transplanted insulin-producing pancreatic islet cells from nondiabetic rats into the thymus glands of diabetic rats. Result: For the first time, rats tolerated the new cells, started producing insulin normally, and lived out their normal lifespans.

In the experiment, documented in the Sept. 14 issue of *Science*, researchers found that the animals' thymus glands accepted transplanted islet cells far better than other organs, such as the liver or kidneys, that have long been used in such work. Using those organs has led to rejection unless potentially dangerous immune-suppressing drugs are given for the rest of the animal's life. With the thymus work, only one dose of an immune suppressant was needed. Researchers also found that after 200 days, the rats lost their tendency to reject islet cells even if they were transplanted outside the thymus. If the technique can be applied to humans, researchers would use pancreatic cells from cadavers.

MAKING CARS AND PLANES STRONGER BY FILLING 'EM FULL OF HOLES



Composite materials made from carbon fibers and bound with epoxy resin are strong, light, and perfect for aircraft and automobile construction. Problem is, these materials can be brittle. Too much stress concentrated in one area can produce cracks and fractures.

The way around brittle composites: punch them full of holes, says Albert F. Yee, professor of materials science and engineering at the University of Michigan. Yee has increased the fracture resistance of certain composites threefold by seeding the epoxies with tiny particles of rubber or plastic. When stressed, these particles absorb energy and form microscopic bubbles in the epoxy, creating a Swiss-cheese-like texture. Because the surrounding material then becomes ductile, cracking is avoided. Yee has just received funding from several major chemical companies that expect to use the technology in designing new composites for cars and aircraft.

REGIONS

CRISIS IN THE GULF EASES THE CRISIS IN THE OIL PATCH

After years in the doldrums, drilling is starting to rebound

Even before he'd ever heard of Saddam Hussein, business was starting to pick up for Nicholas P. Anton, a new-car sales manager at a large BMW dealership in Houston. Then along came the invasion of Kuwait and soaring oil prices. With customers shelling out up to $72,000 for swanky models, Anton sold 50 cars in August, up 50% from a year ago, and sales remain strong. For the first time in years, even a few independent oilmen are venturing in to buy. "Everybody seems to have more confidence," he says.

Across the oil patch, there is a sense of optimism not seen in years. While $30 oil could push the rest of the country into recession, it is beginning to do wonders for states such as Texas, Louisiana, and Oklahoma. The number of active rigs has jumped since late July—rising by more than 8% in Texas alone—and higher crude prices could put thousands of roughnecks and petroleum engineers back to work. This could speed up recoveries in major cities such as Houston and Dallas and spread the revival to smaller oil towns from Midland, Tex., to Morgan City, La., and even up to Casper, Wyo. "It won't benefit us like it did in the 1970s," says M. Ray Perryman, an economic consultant in Waco, Tex., "but it could be a big kicker."

MODEST PICKUP. The oil states certainly could use a boost. While Texas—the strongest of the oil patch states—is recovering, its growth is slow and uneven. Houston and Dallas are on the mend, but both cities suffer from a long-standing glut of commercial real estate, with office vacancy rates exceeding 25%. Austin and San Antonio continue to have weak economies, while small oil towns such as Tyler and Midland are mired in depression. Employment is growing, but the jobs pale when compared with the fat-paying oil jobs of the 1970s. Texas per-capita income, which was 2% above the national average in 1982, is now 12% below it.

It's worse in other parts of the oil patch. New drilling had nearly shut down in Oklahoma, and nonfarm employment is still well below 1985 levels. In Louisiana, even before Saddam, a modest pickup in offshore drilling was injecting life into some smaller towns. But statewide, private job growth is virtually nonexistent, the economy is stagnant, and benefits from the offshore work have been spotty.

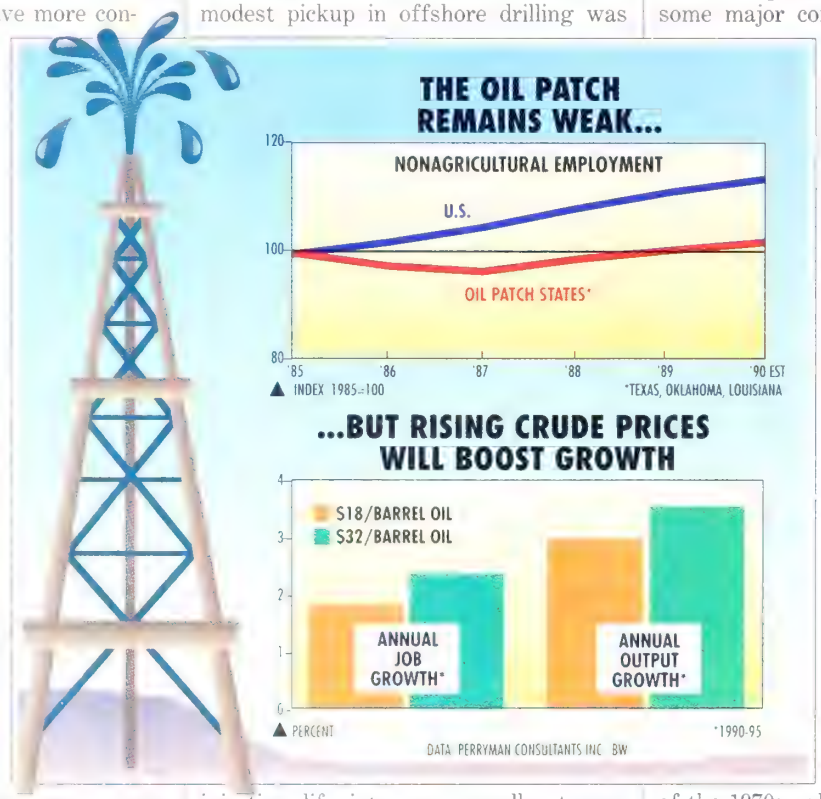
The picture is sure to brighten with higher oil prices. If they level off at $27 a barrel, Perryman estimates Texas could add 135,000 jobs. At $32—a level the markets are already flirting with—that figure rises to 210,000. With crude at $32, the Texas economy grows at a robust 3.5% clip, compared with less than 3% with $18 oil (chart). The impa would be even greater on less diversifi oil states. Louisiana could add almo 40,000 new jobs, says Louisiana Sta University economist Loren Scott—mo than doubling its employment grow since 1988. Oklahoma could see 20,0 new oil patch jobs. And the recove should spread to Colorado and Wyomi as well.

Earlier this year, major oil compani had begun to boost their explorati spending, and they were beginning drill again in fields such as the Gulf Mexico. They then pulled back when prices faded. But since the end of Ju higher oil prices have put 21 more ri to work in the oil patch states, says Ba er Hughes Inc., a major oil-field servi company. Offshore drilling is picki up as well, driving up the price renting the more sophisticated offsho rigs by more than 25%. While tha still not profitable for most drille some major companies such as Texa Inc. and Shell Oil C are talking about sig ing long-term leases offshore rigs—a sh of confidence in t market.

PLENTY OF GAS. A fe independents are al starting to crawl out their bunkers. Houst oilman Marvin C. Z had been sidelined sin putting his debt-lad MCZ Inc. into Chapter in 1986. But this ye the 39-year indust veteran scraped toge er enough cash to d two small gas we And if oil prices stay the high 20s, as he pects, he will sink 5 10 wells next year. $25 to $30 a barrel," says, "the indus would start go again."

Still, no one expect return to the glory d of the 1970s, when oil prices were se ingly headed to $80 a barrel. Major companies will probably keep pump most of the exploration dollars overse where drilling costs are lower and coveries larger. And even if crude pr stay strong, new wells are unlikely send production soaring.

The oil states have more going them than simply oil, though. They also the biggest producers of nat gas—and there's a lot of gas waitin to be pumped for the right price. Alt



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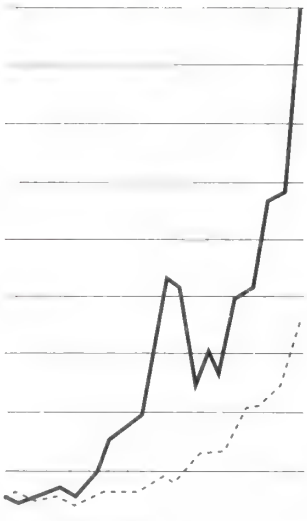

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half the rigs now active are drilling f gas, and much more in Oklahoma. Hig er oil prices, along with environmen pressures, would make industrial a utility customers switch to gas, drivi up drilling activity. Just holding cru prices at $24 per barrel would boost Te as gas production by 20% in the ne two years, or about 1 trillion cubic fee year, says Bernard L. Weinstein, dir tor of the Center for Economic Develo ment & Research at the University North Texas. This rise in gas producti would add $5 billion a year to the sta economy.

The oil states may derive another b nus from the conflict in the Middle Ea a reprieve on military cutbacks. They have military bases, and some of t world's largest defense contractor

Will the price hike last? 'The big companies want to see six or seven months before they really move'

such as General Dynamics, LTV, a Texas Instruments, are located in t Dallas-Fort Worth area. With the co war winding down, some military co cerns were beginning to lay off emplo ees. But it's possible that Saddam h changed that prospect or at least slow the cutbacks.

BURNED. Even in the oil patch, thou not everyone benefits from higher-pric crude. It would certainly hurt many n oil companies. And the petrochemi plants and refineries that dot the gu coast of Louisiana and Texas thrive cheap oil and a strong national econor A rise in oil prices would put a dou whammy on these energy-related bu nesses, cutting U.S. demand for th products while boosting their feedst costs. Indeed, a slowdown in their exp sion plans could deprive the region one of its main sources of construct employment.

On balance, of course, the region big winner if the higher oil prices st long enough. "The big companies wo to see six or seven months before th really move," says James D. Woo chairman of Baker Hughes. They wr burned by crashing oil prices bef "It's like going to Las Vegas," sa Zeid. "Even when you're winning, yo never know if your luck's going to hold." True, but these days the odds a vor the oil patch.

By Mark Ivey in Houston, with Wen Zellner in Dallas

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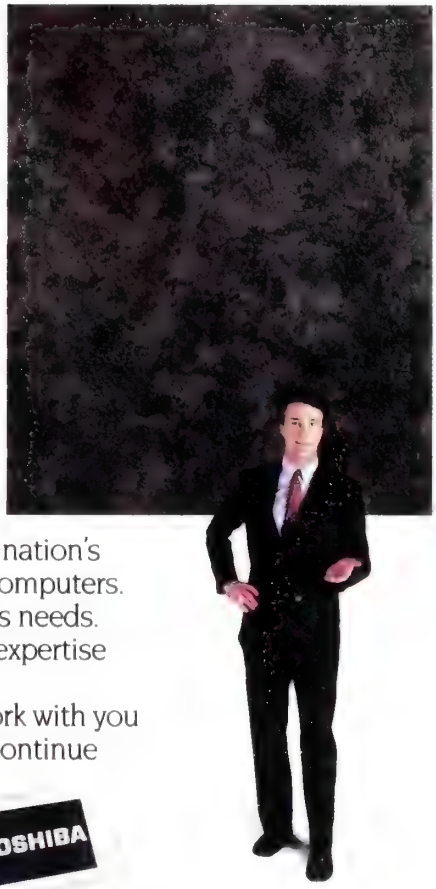

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EXECUTIVE FALL FASHION

A Personal Business Special Report

EASY DOES IT

Time was when no one said the words "executive" and "fashion" in the same breath. Fashion was thought to be a matter of foppish vanity, and no self-respecting professional would sink to that lowly level; instead, he or she stayed wedded to a traditional, well-tailored uniform. But even uniforms evolve. "Conservative" and "classic" may still be the watchwords, but to remain completely oblivious to changing styles is to risk looking dated—after all, even the most solid portfolio, if not invested for growth, will decline in value.

In short, dressing well is an investment—in yourself. That's why they call it investment dressing, the knack of buying stylish clothes that stay in style. And, happily, the ability to look modern but not modish, the essence of investment dressing, is easier than ever. This year has seen no revolution in business dress; instead, there has been an evolution of styles that emphasize ease and comfort. More suits are being made of lighter wools, wearable 10 months of the year. Jackets remain bigger and less fitted, but the stiff shoulder pads of the recent past have given way to a softer, more naturally sloped shape. Skirts have settled just above the knee, but with a more graceful drape allowing for freer movement. Colors are now easy on the eye: Muted tones predominate, punctuated with an oversized print or bright accessory.

On the following pages, BUSINESS WEEK presents a range of contemporary looks. The emphasis is on the word "range." Ultimately, fashion isn't about shoulder widths and skirt lengths. It's about flattering yourself.

EDITED BY TROY SEGAL • PHOTOGRAPHS BY CHUCK BAKER

DOUBLE-BREASTED.

The double-breasted suit has never completely vanished from the sartorial scene. But this year, it has gone from being a counterpoint to occupying a solid niche on the clothing racks: Both traditional and avant-garde manufacturers report that the style is comprising 35% of wholesale orders for fall suits. The model of choice this year—a six-button jacket—harks back to the heyday of the double-breasted in the '30s and '40s. It's a highly flattering style: The V-shaped wedge formed by the buttons, the jacket's looser drape, and the wide shoulders all help to elongate the wearer's torso. So, contrary to popular belief, the double-breasted can be worn by those other than the tall and superthin—at least in this version. Left to right: Gray plaid suit by Allyn St. George, $400. Jacket, $895, and skirt, $340, by Calvin Klein. Navy suit by Gieves & Hawkes, $950.

STYLIST FRED BERNSTEIN/VISAGES, NY HAIR THOM PRIANO MAKEUP JIM CRAWFORD/HAIR BY NIGEL MODELS (L-R) BILL SHELLEY/ZOLI, JANE GILL/FORD, BOB MENNA/OMAR'S MEN

RATIONS BY SANDRA BRUCE

EXECUTIVE FASHION

MODELS (L-R) BOB MENNA/OMAR'S MEN; MARK MOYNAHAN/CLICK

NEW COLORS

This season, when it comes to color, designers have just two words for you: earth tones. Yes, the hues usually reserved for summer—olive and tan—are appearing in winter suits. Even brown, once shunned, is making a bid. But this brown isn't chocolate. It's taupe—a bluish-brown mixture that most would deem gray. Also big: off-color blues and grays whose lighter hue is only apparent next to a true navy or charcoal. Gray suit, left, by Henry Grethel, $350. Taupe suit, right, by Hugo Boss, $650.

NEW SHAPES

"The sack is back!" some fashion mavens have proclaimed. Well, not exactly—three-button suits still represent a mere 8% of most menswear manufacturers' sales. Still, they are appearing more frequently. And the influence has spilled over into women's suits, where that extra button is cropping up—usually on one of the new extra-long jackets, invariably paired with a short, slim skirt. Glen-plaid suit from Grays by Gary Wasserman, $825. Houndstooth jacket, $315, and skirt, $120, by Barry Bricken.

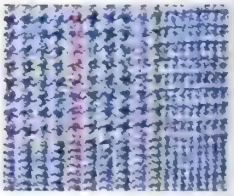
EXECUTIVE FASHION

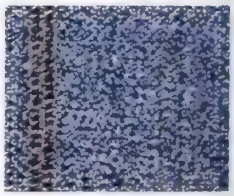
OLD IS NEW AGAIN

One extreme breeds another. This fall, if a woman's suit jacket isn't very long, it's very short. And when it's very short, it's often fitted—recalling the hourglass silhouettes of the '50s. Another nostalgic touch: highly textured fabrics, such as wool bouclé, that soften the sharp edges of a tailored suit. Camel and gray tweed suit, $945, and silk blouse, $210, by Mr. Beene.

SUBTLE PATTERNS

A camel suit may not pass at the office. But navy with a camel stripe might. Traditional checks, plaids, and herringbones are getting updated with two, three, even four colors woven into the pattern. The effect is subtle: The hues are only visible up close. But their presence lends a quiet spirit. Gray plaid, left, by Alexander Julian, $1,000. Navy, right, by Henry Grethel, $375.





MODELS (L-R) PETER KEATING/MICHEL POMMIER BILL SHELLEY/ZOLI

EXECUTIVE FASHION

DAY INTO NIGHT

The three-button suit and the coatdress—two examples of office wear that keeps on working after office hours. This year, both these fitted classics have gotten fuller and more relaxed. The original sack suit, dating from the 1950s, had natural shoulders, high armholes, and a shapeless body. The 1990s version cuts a different silhouette, with broad shoulders, a darted jacket that nips gently at the waist, and an overall easier fit (the top button is more for show than for function). As for the coatdress, the traditional tailored version is still popular. But the contemporary model has loosened up considerably: Instead of being modeled after a double-breasted military coat, the inspiration is a wraparound coat, featuring a belted waist, full sleeves, and an exaggerated notched collar. Charcoal suit by Norman Hilton, $1,150. Wine coatdress by Mary Ann Restivo, $398.

Blouses, shirts, ties provided by the designers. Additional shirts, ties courtesy of Paul Smith. Leather goods courtesy of Paul Smith, Barneys New York. Glasses by Persol, Westbury Optical. Photographed on location at The Winter Garden, World Financial Center, New York City.

BLACK, NOT BLAH, TIE

h, the tuxedo: timeless
mbol of classic elegance.
elegant, in fact, it seems
rd to believe that it caused
scandal at its debut in
86. Accustomed to gentle-
en in tail-
ats, the
owd at the Tuxedo Park
ub in upstate New York
as quite shocked when a
ung socialite appeared at
e annual Autumn Ball
earing a tail-less jacket.

FORMAL WEAR

But the tuxedo caught on, of course. And in the past few years it has enjoyed a resurgence—the result, retailers say, of the more formal entertaining style revived by the Reagan White House. More and more invitations say "black tie," and increasingly, men are heeding the call. Sales of tuxedos now comprise 25% of revenues at formalwear shops, says the International Formalwear Assn. Five years ago, rentals accounted for 90% of their revenues.

Once, a man could have worn his father's or even grandfather's tux and been correct. But as designers have entered the field, the tuxedo has gotten more fashion-conscious. "Wearing a tuxedo is special," says Joseph Abboud, whose collections include suits in his characteristic soft-shouldered style. "Why look like yesterday's news?"

Along with a general change in silhouette—broader shoulders, a less fitted body—comes a variety of options. Jackets can be single- or double-breasted, softly unstructured in the Italian mode or nipped-in *à la* Savile Row. Trousers can be plain or pleated. And the lapel—would you prefer it peaked, notched, or shawl, sir? "Traditionally, men have dressed to look uniformly elegant," says Stephen Hecht, IFA president. "Now, they want their own black-tie look."

All within a conservative framework, of course. The big look in a formal ensemble reflects the grand look of the 1890s, including vest with lapels and shirt with wing-tip collar. Both vests and cummerbunds now show up in splashy colors and patterns: herringbones, brocades, or black shot with gold or silver threads.

As for the suit itself, black is beautiful: The pastel tuxes of the 1970s have, mercifully, departed. But there are some textured variations. After Six has models with pinstripes, shadow stripes, and plaids—all black-on-black. Lord West goes further, with colored stripes woven throughout the coat.

At $300 to $1,200, tuxedos run about $50 more than comparable business suits. Still, with rentals costing $75 to $100, a purchase is worthwhile if a man attends more than three formal functions a year. And a funny thing happens to people who buy tuxedos: They find an amazing number of excuses to wear them.

MODEL IN SHELL PHOTOGRAPHED ON LOCATION AT THE STANHOPE HOTEL. TUXEDO, LORD WEST. COAT CARDINA. COATS OF CANADA

AN ORIGINAL YOU

MADE TO MEASURE

The room radiates corporate elegance. High-backed carved chairs surround a long oak table. The walls are covered with grass wallpaper; the corner windows overlook a park. It could be a typical boardroom—except for the miniature armoires on the table, their tiny shelves stacked with fabric swatches.

Welcome to the Madison Room at Capper & Capper in Chicago. And welcome to the world of made-to-measure suitings. It's increasingly popular among men who don't want to settle for off-the-rack. "You're not just buying a suit, you're buying an extension of yourself," says Christopher Ryan, assistant manager for Barneys New York.

Made-to-measure isn't exactly the same as custom-made, in which a tailor designs an original suit for you. A made-to-measure suit is a manufacturer's standard model cut in your exact size and to your stylistic specifications. It's like going into a Mercedes showroom and ordering the 450SL with certain options—vs. having Mercedes-Benz build you a car from scratch.

While custom starts at $2,000, made-to-measure ranges from $800 to $1,500. Admittedly, we're into discretionary dollars here. But then, much ready-made designer wear costs $800 and up these days. Notes Nick Hilton of manufacturer Norman Hilton, where made-to-measure orders have tripled since 1985: "Men are spending more, and they want more for the money."

Probably the primary motive for made-to-measure is to get a perfect fit. But it also appeals to those who don't like compromises in their clothes: Both concerns motivated Dennis Wong, president of San Francisco's Prism Capital, a turnaround specialist. His main aim was size. But he became absorbed in the process, spending "an hour or two" over the options and undergoing three fittings (it usually takes two). "I'm rather particular about things in general—and I guess that applies to clothes," notes Wong, who now has 10 suits from Barneys.

Indeed, being particular is half the fun—starting with the choice of fabric. Carroll & Co. in Los Angeles offers 2,000 swatches, including 20 navy pinstripes, 10 glen plaids, and at least five bird's-eye prints. Working with a man for an hour to get the right shade of gray is not unknown, says Vice-President John Carroll.

Since most men order a good workhorse suit (or two), they usually choos traditional colors and pa terns. But a sizable minorit seek the unusual. At Brook Brothers, "40% of the sele tion is something other tha the standard grays an navys," says David Ecki buyer for special orders.

Then, there are the styli tic details: single or doubl breasted? Two or three-bu ton? Should trousers b plain or with pleats—pe haps reversed? What sty of pocket? What type vents How about real working bu tonholes on the sleeve About the only thing a ma doesn't get to do is blend b sic features, such as shou der width, from different b sic models.

At most stores, a mad to-measure suit runs abou 15% higher than its off-th rack counterpart; som makers charge more for ce tain extras. But beware ar service offering only a fe of these options. Chanc are they're simply "breakin a suit"—that is, giving yo two ready-made pieces disparate sizes. No sense paying extra for that, says Bruce Boyer, author of *En nently Suitable*, a book business attire.

Another warning: Mad to-measure can be hab forming. Donald Barr president of Country Ca Centers, a nursing-hor chain, never buys reac made suits anymore. For t past five years, he has dered five or six Oxxfc suits from Capper & Capp each year. The Springfi (Ill.) executive doesn't ev have to visit the store: Wh new fabrics come in, salesman makes selectio sends him the swatch and, once the suit is ma selects shirts and ties to with it. Sighs Barry conte edly, "I've found what want to grow old with."

Greg Best and Gem Twist, Olympic individual Silver Medal winners.

The U.S. Equestrian Team. A proud presence in a classic sport.

In 1949, a small but ambitious group of sportsmen founded the United States Equestrian Team. Their goal was to replace the recently disbanded world-class military squads that had represented America in international competition.

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EXPECTING IN STYLE

Once upon a time, if you were an expectant mother, they dressed you like a little girl—mainly in smocks and jumpers—all in pretty pastels. In the past several years, however, maternity clothes have grown up, reflecting the needs of a woman who stays on the job during pregnancy. Says Julius Starkman, president of manufacturer Stern Made Dress Co.: "Designs now try to incorporate the fact a woman's pregnant—not hide it."

Stretch fabrics and better elastics have broadened design possibilities. But mainly the heightened style stems from producers heeding the growing number of expectant executives' demands—and dollars. Gail Donovan, vice-president of operations at Doctors Hospital in New York City "wasn't about to give u business attire with a flair during her recent pregnancy. She "spent a few thousand dollars" on outfits.

Once 100% polyester pregnancy clothes now come in a variety of natural fabrics: linen, wool crepe even silks and suedes. An in a rainbow of colors: scarlet, olive, wine, and camel One of the best-sellers at the 5th Avenue Maternity Store in Seattle is black, "which you never used to see in maternity wear," says owner Lydia Williams.

Some larger chains, such as Reborn Maternity in the Northeast and A Pea In The Pod in the Southwest, even commission clothes from trendy designers such as Joan Vass and Jennifer George. "Whatever's hot in the mainstream market, we have," boasts Dana Rosen of A Pea In The Pod. Among the hot looks this season short Chanel-like jackets and tapered dresses.

It costs to be *au courant* however. As recently as 1988, "there was a $100 ceiling on maternity clothes" says Christine LaBastille owner of New York's Executive Mother boutique Now, in between the better fabrics and the more modish styles, a suit or dress often starts at $150 and can quickly mount to $500. And the sort of garb hardly qualifies as investment clothing.

Still, for most executives maintaining a corporate image isn't a nicety, but a necessity. "When you're pregnant, people naturally want to talk about it," recalls new mother Sharon Bloch, a Bank of Nova Scotia representative in Portland, Or. "But if you look professional, you can steer the conversation back to business."

MATERNITY WEAR

MODEL: JO STRAWTHORPE, FORD. CLOTHES: REBORN MATERNITY

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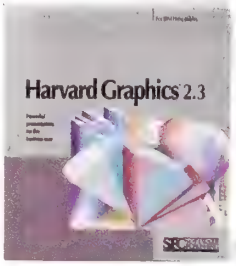

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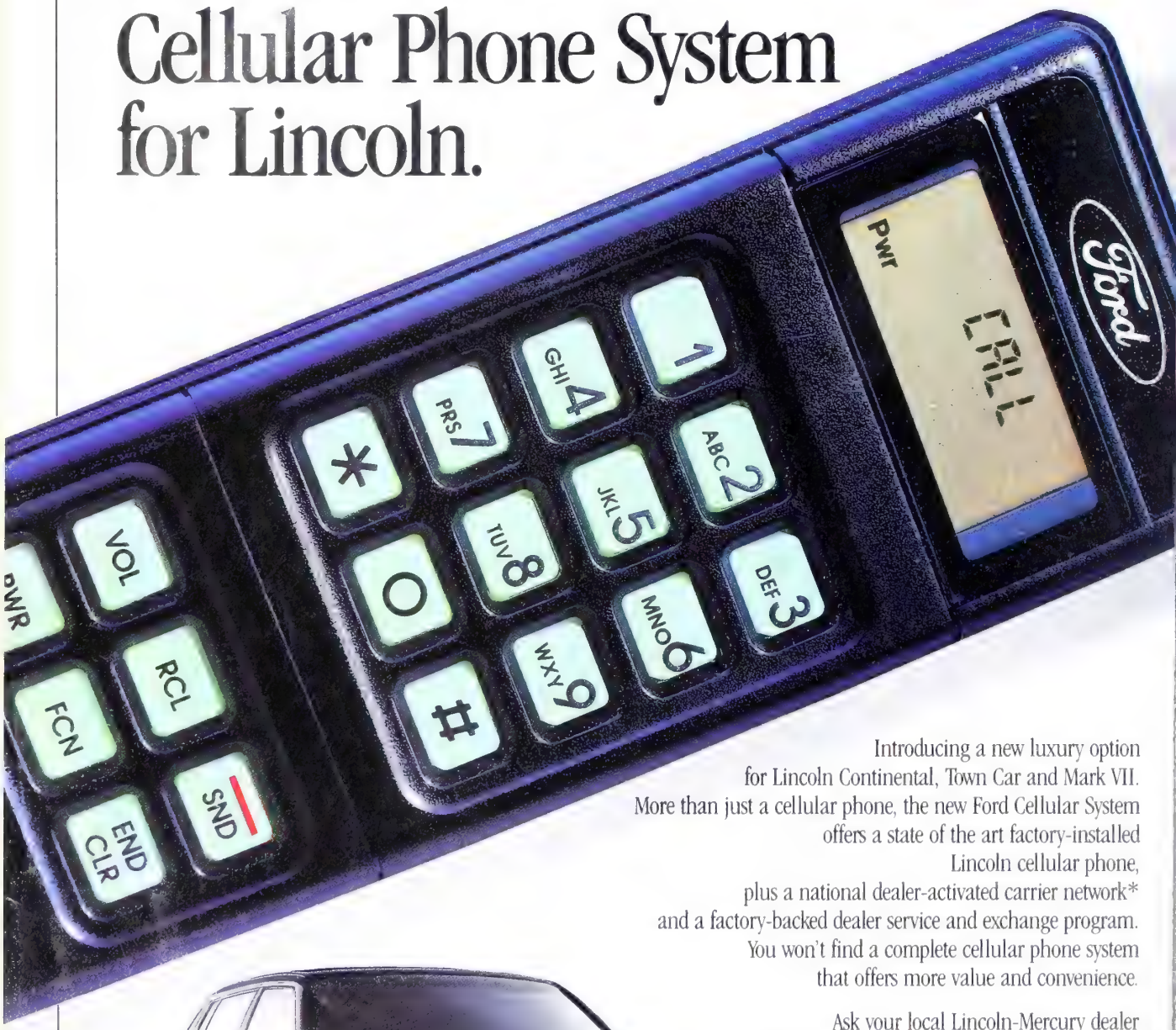

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NO LONGER AN AFTERTHOUGHT

lothes make the man—but cessories make the man ell-dressed. That bit of sar- rial wisdom seems much vogue now, with a revival "furnishings" that had en in decline since World ar II. Barneys New York ys sales of braces have ris- 30% each year for the last ur years. Cartier claims ff-link sales rose 40% in 89. Even pocket squares e back.

Now, cynics might te that this emphasis accessories began out the same time a ortage of raw wool nt suit prices soaring 1987-88. If a man is ing to hold off on big it purchases, retail- s figured, maybe he'll ring for the small uff. And what better ay to tempt him than show items that en't just utilitarian, t are eye-catching as ell?

Whatever the cause, en are discovering mething women have ways known: A mod- extra is an easy way update clothes. It's so a safe way to hieve a little individ- al flair, especially hen one's corporate lture frowns on inno- tive looks.

Neckwear leads the ay. Not since the 70s have ties been so t and sassy—though tually, the "in" cut is e 1930s bottle shape: small knot that bal- ons into a thick body. rfaces have exploded into joyful patterns: florals and leaves (especially for fall), an amoeba splotch in the center, or geometric shapes that tumble down the tie. No single power color has emerged; instead, the hot cravat mixes several hues harmoniously.

Stripes have not completely vanished; they've simply relocated down to socks. Once stolid solids, dress socks have now become sweaters for the feet, featuring diamonds, circles, tiny herringbones—even clocks running up the side. The more-daring might think of venturing into wine, celadon, or light blue.

For belts, the preferred hues remain brown or black. But cowhide is passe: What's hot is lizard or alligator skin, either real or faux.

Even dress shoes—whose look traditionally changes with the speed of a glacier—are beginning to alter. Cap toes and wing tips have a thicker shape in response to the fuller, more drapey suits—"a look that just swallows up a streamlined Italian shoe," says Herbert Wallace, Johnston & Murphy sales-development manager.

Inspired by the new earth-toned suits, brown shoes seem to be gaining over burgundy, especially the lighter shades: Manufacturer Allen-Edmonds Shoe has increased the number of oak-tone models from one to 25 this year. Even brown-suede wing tips are making an appearance—though probably not in the office "unless you're pretty sure of yourself," says Louis Ripple, of Allen-Edmonds.

Wearing these accessories does require some confidence, especially when it comes to mixing different hues and patterns. The key is to keep one part of the ensemble quiet: "Otherwise, it's jarring on the eye," says Lois Fenton, co-author of *Dress For Excellence*. And the patterns should never match exactly—it looks too studied. Dashing is one thing. Dandyish is another.

MEN'S ACCESSORIES

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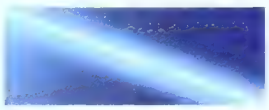
That's because a Laser Class fax has features that won't soon be outmoded. They actually keep pace with expanding needs.

Like the memory capacity of our new FAX-L770. As your fax network expands, the L770 can expand its capacities, too, allowing greater volumes to be received into memory or stored for transmission.

Laser Precision on Plain Paper.

Canon is the market leader in plain paper fax. And the L770 uses a laser process to print images on plain paper.



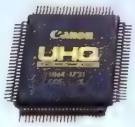
Because of laser printing, they're faithful to the original

Faxes look better, last longer, and won't curl or fade like thermal paper. And you won't have to copy them before filing.

A Better Image, Sending and Receiving.

The L770 can improve an incoming image. An exclusive feature called Hyper-Smoothing actually compensates for the image quality of an incoming fax. So the images you receive are clearer, without the fuzzy edges that can make reading text difficult

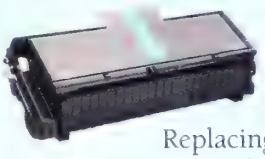
And with Canon's UHQ imaging technology, the images you send are better, too.



Even combinations of small type and halftones are virtually indistinguishable from their original.

Built-In Reliability.

The L770 is also designed to be more reliable than other plain paper laser facsimiles. Canon's exclusive cartridge system stores everything that can run out or wear out in one neat disposable unit.



Replacing them is as easy as popping in a new cartridge.*

The Canon Laser Class FAX-L770. After a few minutes you'll be glad you bought it. After a few years you'll be ecstatic. For information, call 1-800-OK CANON.

The only thing not built into our laser facsimile is obsolescence.

Canon
LASER CLASS
FAX-L770

1989 "Manufacturer of the Year"
awarded by National Office Machine Dealers Association
to Canon U.S.A., Inc. for outstanding dealer support

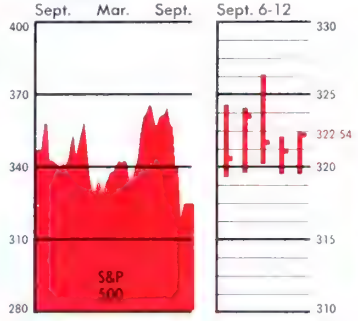
*Cartridge sold separately

nvestment Figures of the Week

AMENTARY

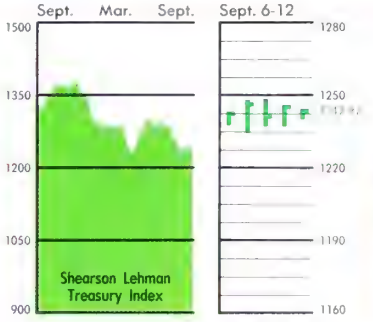
ancial markets were lifeless this
k, with investors unable to
their attentions from the Mid-
t. Stocks and bonds hardly
ed, trading volume was ane-
and the only action was in
The put/call ratio continues to
a buy signal for stocks. But
it with a grain of salt. The
volume of puts reflects inves-
trying to protect their stock
folios from another Saddam
ult. Unless we get some posi-
news on that front, stocks will
ain stuck in the sand.

STOCKS



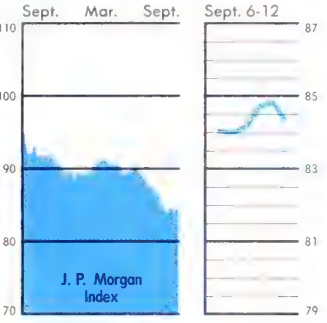
52-week change **–6.6%** | 1-week change **–0.6%**

BONDS



52-week change **–7.2%** | 1-week change **+0.2%**

THE DOLLAR



52-week change **–10.9%** | 1-week change **+0.4%**

ARKET ANALYSIS

STOCKS	Latest	% change Week	52-week
W JONES INDUSTRIALS	2625.7	–0.1	–2.0
COMPANIES (Russell 1000)	166.9	–0.4	–8.7
LL COMPANIES (Russell 2000)	139.9	–0.1	–21.8
COMPANIES (Russell 3000)	177.0	–0.4	–9.6

EIGN STOCKS	Latest	% change (local currency) Week	52-week
DON (FINANCIAL TIMES 100)	2147.0	–0.2	–10.6
YO (NIKKEI INDEX)	25,216.1	4.7	–26.5
ONTO (TSE COMPOSITE)	3271.7	–1.8	–16.5

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	7.6%	7.6%	7.8%
30-YEAR TREASURY BOND YIELD	9.0%	9.0%	8.1%
S&P 500 DIVIDEND YIELD	3.6%	3.6%	3.1%
S&P 500 PRICE/EARNINGS RATIO	15.1	15.2	13.3

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 26-week moving average	345.6	346.2	Negative
Stocks above 26-week moving average	18.3%	17.0%	Positive
Speculative sentiment: Put/call ratio	0.45	0.47	Positive
Insider sentiment: Vickers sell/buy ratio	1.01	1.13	Positive

DUSTRY GROUPS

BRIDGE INFORMATION SYSTEMS INC

R-WEEK LEADERS	% change 4-week	52-week	Strongest stock in group	% change 4-week	52-week	Price
ALTH CARE SERVICES	3.9	13.8	MANOR CARE	5.1	–14.9	12⅞
ETAL AND GLASS CONTAINERS	3.0	4.1	CROWN CORK & SEAL	4.4	8.8	58¾
L AND GAS DRILLING	2.0	36.2	ROWAN	5.2	63.5	15⅛
UMINUM	1.4	–5.3	REYNOLDS METALS	6.2	14.8	66
YS	1.1	–25.1	MATTEL	10.1	2.0	19⅛

R-WEEK LAGGARDS	% change 4-week	52-week	Weakest stock in group	% change 4-week	52-week	Price
ACHINE TOOLS	–23.1	–37.1	ACME CLEVELAND	–32.9	–47.8	5⅞
IMEBUILDING	–17.4	–47.7	U. S. HOME	–37.5	–50.0	⅝
ECIALTY RETAILERS	–16.1	–20.3	LIMITED	–20.5	–19.0	15½
MICONDUCTORS	–16.0	–2.1	MOTOROLA	–21.5	7.2	59⅞
TELS AND MOTELS	–15.9	–66.7	PRIME MOTOR INNS	–46.2	–92.5	2⅝

UTUAL FUNDS

MORNINGSTAR INC.

DERS

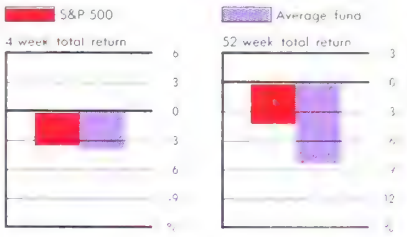
week total return	%
UITY STRATEGIES	10.0
REYFUS CAPITAL VALUE	2.9
DELITY SELECT BIOTECHNOLOGY	2.7

eek total return	%
UITY STRATEGIES	74.4
DELITY SELECT ENERGY SERVICE	43.2
DELITY SELECT BIOTECHNOLOGY	30.5

LAGGARDS

Four-week total return	%
STEADMAN OCEANOGRAPHIC TECHNOLOGY	–18.9
BULL & BEAR SPECIAL EQUITIES	–15.8
PRUDENT SPECULATOR LEVERAGED	–15.1

52-week total return	%
PRUDENT SPECULATOR LEVERAGED	–45.4
STEADMAN OCEANOGRAPHIC TECHNOLOGY	–40.3
WASHINGTON AREA GROWTH	–37.2



ELATIVE PORTFOLIOS

DATA RESOURCES INC.

ir amounts
esent the present
e of $10,000
sted one year
in each portfolio

ntages indicate
day total returns

Gold	Money market fund	Treasury bonds	U. S. stocks	Foreign stocks
$10,809	**$10,702**	**$9,885**	**$9,368**	**$8,823**
+1.80%	+0.14%	+0.80%	–0.63%	–0.22%

ta on this page are as of market close Wednesday, Sept. 12, 1990, unless otherwise indicated. Sept. 11. Mutual fund returns are as of Sept. 7. Relative portfolios are valued as of Sept. 11. A more
y groups include S&P 500 companies only; performance and share prices are as of market close detailed explanation of this page is available on request

THE ARAB MONARCHIES MUST ADAPT OR DIE

Iraqi President Saddam Hussein's blistering attacks on the legitimacy of the monarchies of Saudi Arabia and the other Persian Gulf states have won a large audience in the Arab world. A broad spectrum of Arabs buy Saddam's line that the governments of these states, essentially family-owned businesses and absolute monarchies at the same time, are anachronisms. They are seen to have frittered away vast sums on gambling and luxurious living while contributing little to the economic development of their poorer neighbors.

Such criticism, combined with their having had to invite American and other foreign troops in for protection, raises a question of whether these regimes can survive. That is a major concern to the U. S., which is shielding these regimes from Saddam at enormous cost and has vowed to stay in the gulf until the deposed Kuwaiti ruling family, the al Sabah, is restored. But the al Sabah face plenty of scrutiny if they ever get back in power. They have been tarred, perhaps permanently, as a self-indulgent, arrogant clan that has spent Kuwait's oil wealth abroad rather than at home. The position of Saudi Arabia's ruling family, the al Saud, is much stronger, partly because they rule an 870,000 square-mile piece of real estate instead of a 6,000 square-mile air-conditioned enclave. But they, too, will find that the gulf crisis has raised a lot of questions about the extraordinarily privileged status of their 5,000 royal princes.

Looking to the future in a post-Saddam gulf region, these regimes must increase their citizens' participation in government—if they are to have a prayer of surviving. The mechanisms are already partly in place. Kuwait has had a parliament intermittently from 1971 until the al Sabah suspended it in 1986 as too obstreperous for their tastes. In Riyadh, King Fahd has talked of a consultative council for years and even built a building to house it, but it stands unused. The al Sabah should promise the revival of a vigorous parliament if they are restored to power. The al Saud and other gulf rulers also should signal that moves toward parliamentary rule will be forthcoming once the gulf crisis is resolved. Otherwise, U. S. troops may have to remain in the region propping up increasingly unpopular regimes.

TERMINATE THE TEXTILE BILL

How about a law that would provide needless protection for a healthy and already well-protected U. S. industry, further raise prices to consumers, violate trade agreements with 38 countries, open the U. S. to penalties and retaliation, and threaten to derail one of the Administration's top economic goals?

Just such a measure has already passed the Senate, 68-32, and currently has more than 290 supporters in the House of Representatives, where a vote is expected soon. The measure is the Textile, Apparel, & Footwear Trade Act of 19

President Reagan twice vetoed a similar bill. Presid Bush is prepared to do the same, but the stakes are e higher now. For one, the textile lobby has managed garner more support than ever with its misleading cl that textile jobs are being lost to foreign imports. It hope hold on to the two-thirds vote in both houses that would necessary to override any veto. The fact is, however, industry is producing more goods with fewer workers cause it has been modernizing with new plants and eq ment, which is the only way it will stay in business over long term.

Paradoxically, the Bush Administration is trying to m tain considerable protection for the U. S. industry in the f of Third World demands that America open its market. the textile lobby wants nothing to do with even mod market liberalization and hopes that the textile bill will j the current round of multilateral trade talks in Geneva.

Estimates of the cost to the U. S. consumer of the curr level of protection range as high as $22 billion yearly. Thi no time to add to the burden. The House should kill the

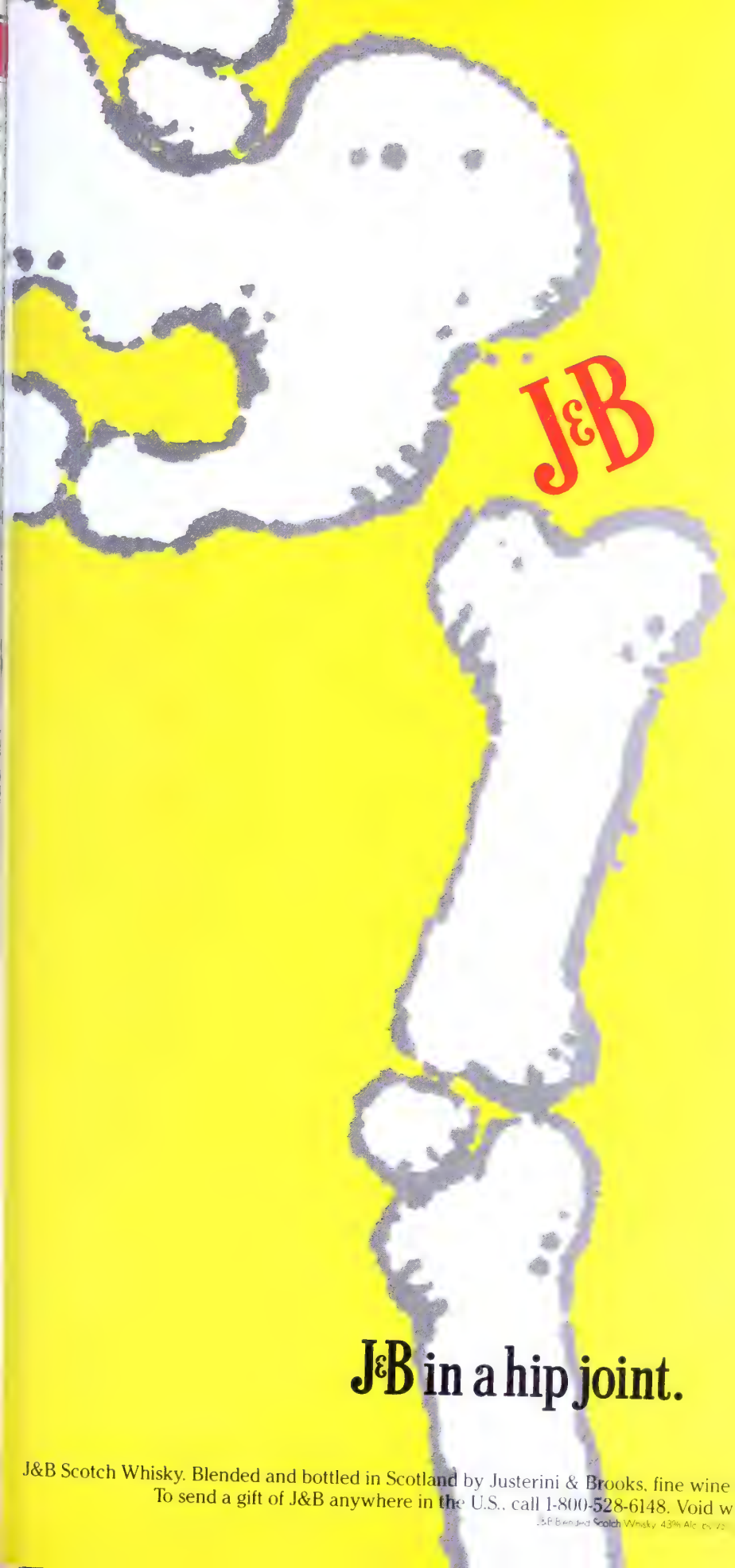
MAYBE THE U.S. COULD US A *KEIRETSU* OR TWO

There are valuable insights to be gleaned from success of Japanese giant Mitsubishi (page 98). T Japan's astonishing success at fostering indust competitiveness by overlaying tradition with modern str gies. Today's *keiretsu*, or groups of linked companies, row almost as much from U. S. industry in its prewar day as from the feudalistic *zaibatsu* groups that domin Japan early in this century. But through a pragmatic mi competition and cooperation, Japanese companies have m aged to avoid the fate that eventually befell many conglomerates.

In the marketplace, the Japanese are fierce competi The members of one *keiretsu* battle their rivals in o groups. For suppliers, moreover, the benefits of belon to a *keiretsu*—favored status, thus facilitating center technological excellence and economies of scale—last on long as the company demonstrates its continued respon ness to market forces. Suppliers may do the bulk of business within their confederation, but they can't cour intra-*keiretsu* sales to compensate for inefficiency or ine

Before products come to market, however, it's altoge different. Because developing new technology is so ex sive, the Japanese don't want to squander resources o many duplicate efforts. So otherwise cutthroat compet work together closely on "precompetitive" research. Japanese don't distinguish between basic and applie search—the only distinction that matters is whether technology is ready for market.

America has yet to find its own recipe for such a ble collaboration leading to no-holds-barred competition. I day's global market, antitrust regulations that hobble c opment of the new technologies are clearly outmoded a need of serious rethinking.



J&B in a hip joint.

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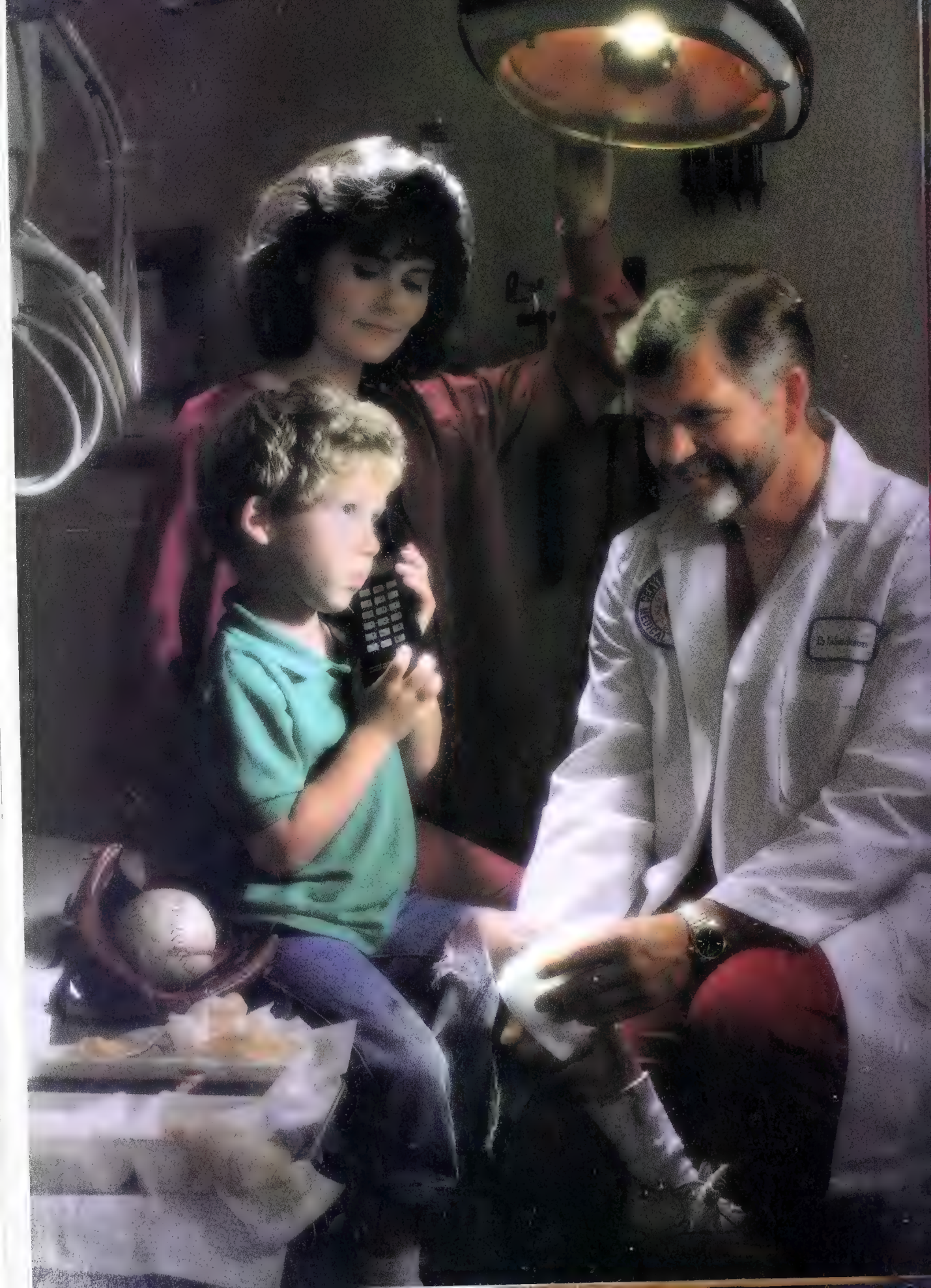

October

N WEARS A WHITE COLLAR PAGE 130

R NEW DEAL PAGE 164

BusinessWe

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Soviet Economic Reform

500 DAYS

Does It Stand A Chance?

PAGE 134

Mikhail S. Gorbachev

Boris N. Yeltsin

40

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Northern Telecom helps shift billions of dollars a da

Who do bankers bank on?

For the Brussels-based Society for Worldwide Interbank Financial Telecommunication (S.W.I.F.T.), the answer is simple.

Northern Telecom.

S.W.I.F.T. provides transmission services among major banks round the world. They chose us to provide them with the most reliable data network available. We are, after all, the world's largest supplier of data packet networks.

When completed, this telecommunications solution will connect some 2,600 bank locations in over sixty countries.

So much for the big money.

Now what about the peanuts?

For Cargill, one of the leading agricultural commodity companies, the problem was entire different. They needed an internal phone sy that ensured fast and reliable communicat between their commodity traders across the w

They chose Northern Telecom because n sells more advanced business communicatio systems than we do.

Just two of the ways in which Northern Tel advanced telecommunications products are hel both big and small businesses in more than hundred countries worldwide.

Can we help you?

FOR MORE INFORMATION CONTACT NORTHERN TELECOM: 1-800-NORTHERN.

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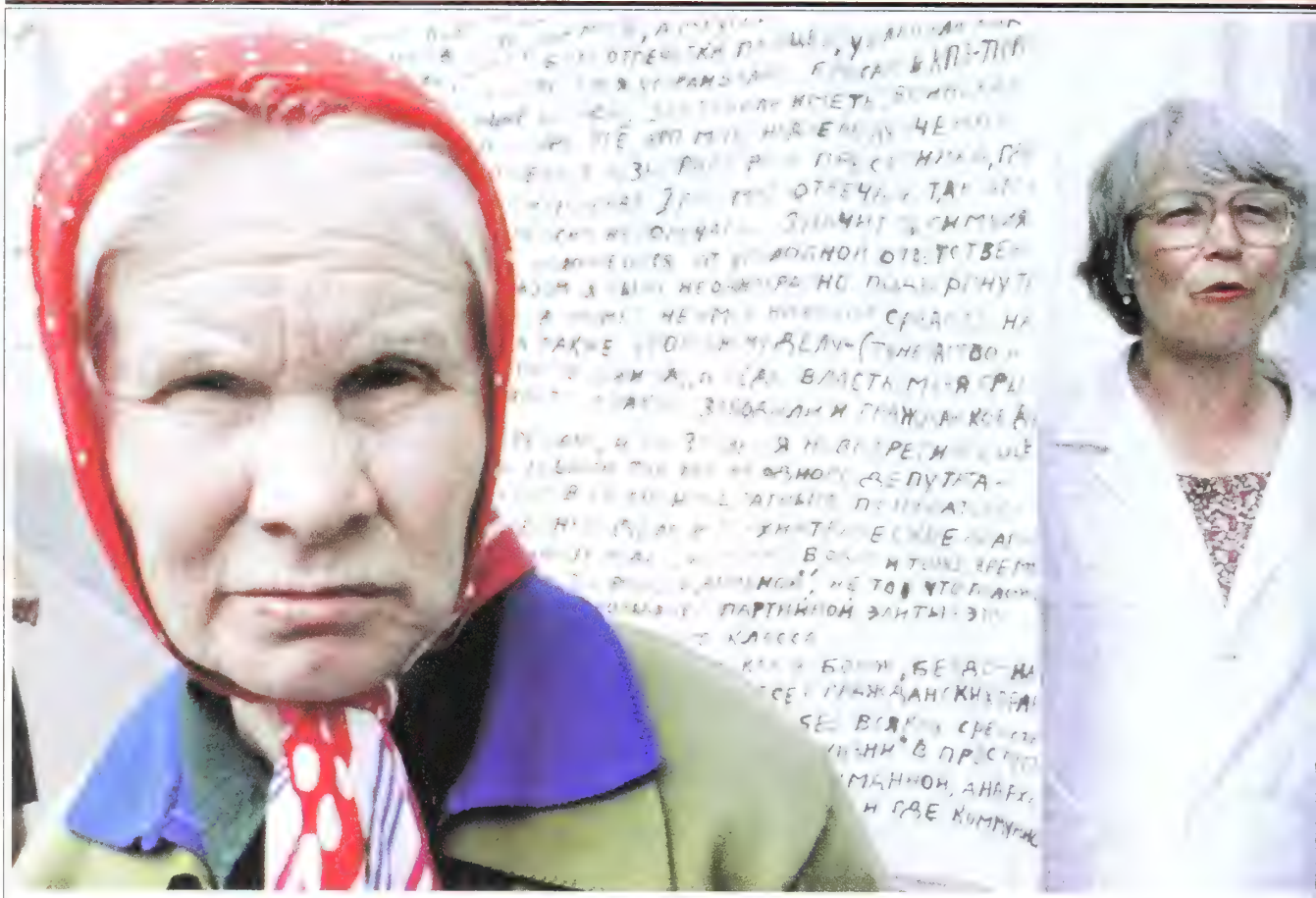
But we also help if it's peanuts.

northern telecom

TECHNOLOGY THE WORLD CALLS ON.℠

Northern
BusinessWeek
NUMBER 3180
OCTOBER 1,1



FALLING THROUGH *PERESTROIKA*'S CRACKS: POVERTY AND HOMELESSNESS HAVE RISEN AS THE SOVIETS LURCH TOWARD A MARKET ECONOMY

Cover Story

138 500 DAYS
Factories are closing, tent cities are rising, and rival nationalist factions are skirmishing. Hardly a day passes in the Soviet Union without another sign of desperation. Now, in a battle to stave off economic collapse and civil war, Boris Yeltsin is forcing Gorbachev to take a radical step beyond *perestroika*

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Investing in the Soviet Union

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One room, three jobs, and dim hopes

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'We are constantly trading,' says Kuwait's Finance Minister

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WASHINGTON OUTLOOK
The voters are sending a message to Establishment politicians this year: They aren't going to take it anymore

'YEAR OF THE WOMAN'? MAYBE
A record crop of female candidates runs into cash problems and plenty of old-fashioned sexism

Science & Technology

BIOTECH'S SHARPSHOOTERS
Gene targeting may let them draw a bead on hereditary disease or create drug-producing animals

DEVELOPMENTS TO WATCH
A new energy source, granny on a disk, gene therapy, time-release insulin, pressure chambers

Marketing

DISCOVERING THE 'NEW MAN'
Clothiers and publishers are betting millions that men are ready to shop till they drop for fashion

Corporation

A TALE OF TWO AIRLINES
Soaring fuel costs and looming recession leave upstarts Midway and America West little room for error

ACCOR'S AMERICAN STRATEGY
It's rapidly expanding Motel 6—and looking for other U. S. properties—but the payoff won't be quick

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The arbs, bloodied by takeover stocks, are turning to junk bonds

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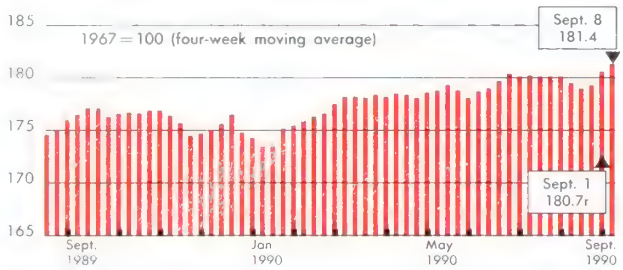
One market, one currency
The battle over 'Big Green'

ess Week (ISSN 0007-7135) published weekly, except for one issue in January, by McGraw-Hill Inc. U. S. subscriber rate $39.95 per year. In Canada, one year CDN $54.95. Single $2.00. Executive, Editorial, Circulation, and Advertising Offices: 1221 Avenue of the Americas, New York, N. Y. 10020. Second-class postage paid at New York, N. Y., and at additional mailing Postage paid at Montreal, P. Q. Registration Number 9010. Title Reg. in U. S. Patent Office **Postmaster:** Send address changes to BUSINESS WEEK, P. O. Box 430, Hightstown, N. J. 08520

BusinessWeek Index

PRODUCTION

Change from last week: 0.4%
Change from last year: 2.7%

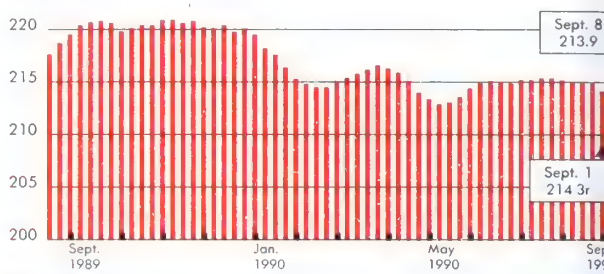


The production index gained more ground in the week ended Sept. 8, the third consecutive increase. On a seasonally adjusted basis, output of autos, coal, trucks, and crude-oil refining increased. Rail-freight traffic, electric power, and steel production declined. Paper, paperboard, and lumber production were unchanged from the previous week. Before calculation of the four-week moving average, the index dropped to 182.3, from 184.1 in the week before.

BW production index copyright 1990 by McGraw Hill Inc

LEADING

Change from last week: –0.2%
Change from last year: –3.0%



The leading index fell slightly for the week ended Sept. 8. For the latest week, small gain in stock prices and faster growth rates in materials prices and M2 offset decline in the growth of real estate loans. Bond yields were unchanged, as were th number of business failures, but failures remain at a relatively high level. Befo calculation of the four-week moving average, the index rose to 213.2, from 212 during the previous week.

Leading index copyright 1990 by Center for International Business Cycle Research

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
STEEL (9/15) thous. of net tons	1,882	1,886 #	8.4
AUTOS (9/15) units	136,828	111,873r #	–3.2
TRUCKS (9/15) units	77,305	66,100r #	11.0
ELECTRIC POWER (9/15) millions of kilowatt-hours	61,180	61,653 #	8.0
CRUDE-OIL REFINING (9/15) thous. of bbl./day	14,377	14,309 #	4.2
COAL (9/8) thous. of net tons	18,904 #	20,652	5.1
PAPERBOARD (9/8) thous. of tons	754.6 #	766.2r	1.8
PAPER (9/8) thous. of tons	759.0 #	771.0r	4.3
LUMBER (9/8) millions of ft.	385.6 #	475.5	–6.1
RAIL FREIGHT (9/8) billions of ton-miles	18.6 #	21.1	6.9

Sources: American Iron & Steel Inst., *Ward's Automotive Reports*, Edison Electric Inst., American Petroleum Inst., Energy Dept., American Paper Inst., WWPA[1], SFPA[2], Association of American Railroads.

FOREIGN EXCHANGE

	Latest week	Week ago	Year ago
JAPANESE YEN (9/19)	138	138	145
GERMAN MARK (9/19)	1 57	1.59	1.94
BRITISH POUND (9/19)	1.88	1.86	1.58
FRENCH FRANC (9/19)	5.26	5.31	6.57
CANADIAN DOLLAR (9/19)	1.16	1.16	1.18
SWISS FRANC (9/19)	1 30	1.32	1.68
MEXICAN PESO (9/19)[3]	2,890	2,885	2,564

Sources: Major New York banks. Currencies expressed in units per U. S. dollar, except for British pound expressed in dollars.

PRICES

	Latest week	Week ago	% Change year ago
GOLD (9/19) $/troy oz.	386.500	382.050	6.5
STEEL SCRAP (9/18) # 1 heavy, $/ton	115.50	115.50	7.4
FOODSTUFFS (9/17) index, 1967 = 100	213.5	212.9	1.0
COPPER (9/15) ¢/lb.	138.6	132.8	0.1
ALUMINUM (9/15) ¢/lb.	90.9	85.8	16.1
WHEAT (9/15) # 2 hard, $/bu.	2.86	2.79	–31.6
COTTON (9/15) strict low middling 1 1/16 in., ¢/lb.	70.87	73.36	3.4

Sources: London Wed. final setting, Chicago mkt., Commodity Research Bureau, *Metals Week*, Kansas City mkt., Memphis mkt.

LEADING INDICATORS

	Latest week	Week ago	% Cha year
STOCK PRICES (9/15) S&P 500	320.14	322.84	–
CORPORATE BOND YIELD, Aaa (9/15)	9.54%	9.57%	
INDUSTRIAL MATERIALS PRICES (9/15)	107.2	106.4	
BUSINESS FAILURES (9/7)	295	294	3
REAL ESTATE LOANS (9/5) billions	$379.4	$379.2	
MONEY SUPPLY, M2 (9/3) billions	$3,314.8	$3,308.5r	
INITIAL CLAIMS, UNEMPLOYMENT (9/1) thous.	382	370	

Sources: Standard & Poor's, Moody's, *Journal of Commerce* (index: 1980 = 100), Du Bradstreet (failures of large companies), Federal Reserve Board, Labor Dept. CIBCR sea ally adjusts data on business failures and real estate loans.

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Cha year
CONSUMER PRICE INDEX (Aug.)	131.6	130.4	
PRODUCER PRICE INDEX (Aug.) finished goods	119.0	117.5	
INDUSTRIAL PRODUCTION (Aug.) total index	109.8	110.0r	
RETAIL SALES (Aug.) billions	$149.2	$150.0r	

Sources: BLS, Federal Reserve Board, Census Bureau

MONETARY INDICATORS

	Latest week	Week ago	% Cha yea
MONEY SUPPLY, M1 (9/3)	$820.0	$815.6r	
BANKS' BUSINESS LOANS (9/5)	317.6	317.5r	
FREE RESERVES (9/5)	301r	–161r	–
NONFINANCIAL COMMERCIAL PAPER (9/5)	146.2	144.2	

Sources: Federal Reserve Board (in billions, except for free reserves, which are expresse a two-week period in millions).

MONEY MARKET RATES

	Latest week	Week ago	Ye a
FEDERAL FUNDS (9/18)	7.87%	8.08%	9.
PRIME (9/19)	10.00	10.00	10.
COMMERCIAL PAPER 3-MONTH (9/18)	7.94	7.89	8.
CERTIFICATES OF DEPOSIT 3-MONTH (9/19)	8.01	7.96	8.
EURODOLLAR 3-MONTH (9/12)	7.99	7.93	8.

Sources: Federal Reserve Board, First Boston

# Raw data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equip
1 = Western Wood Products Assn. 2 = Southern Forest Products Assn. 3 = Free market value NA = Not available r = revised NM = Not meaningful

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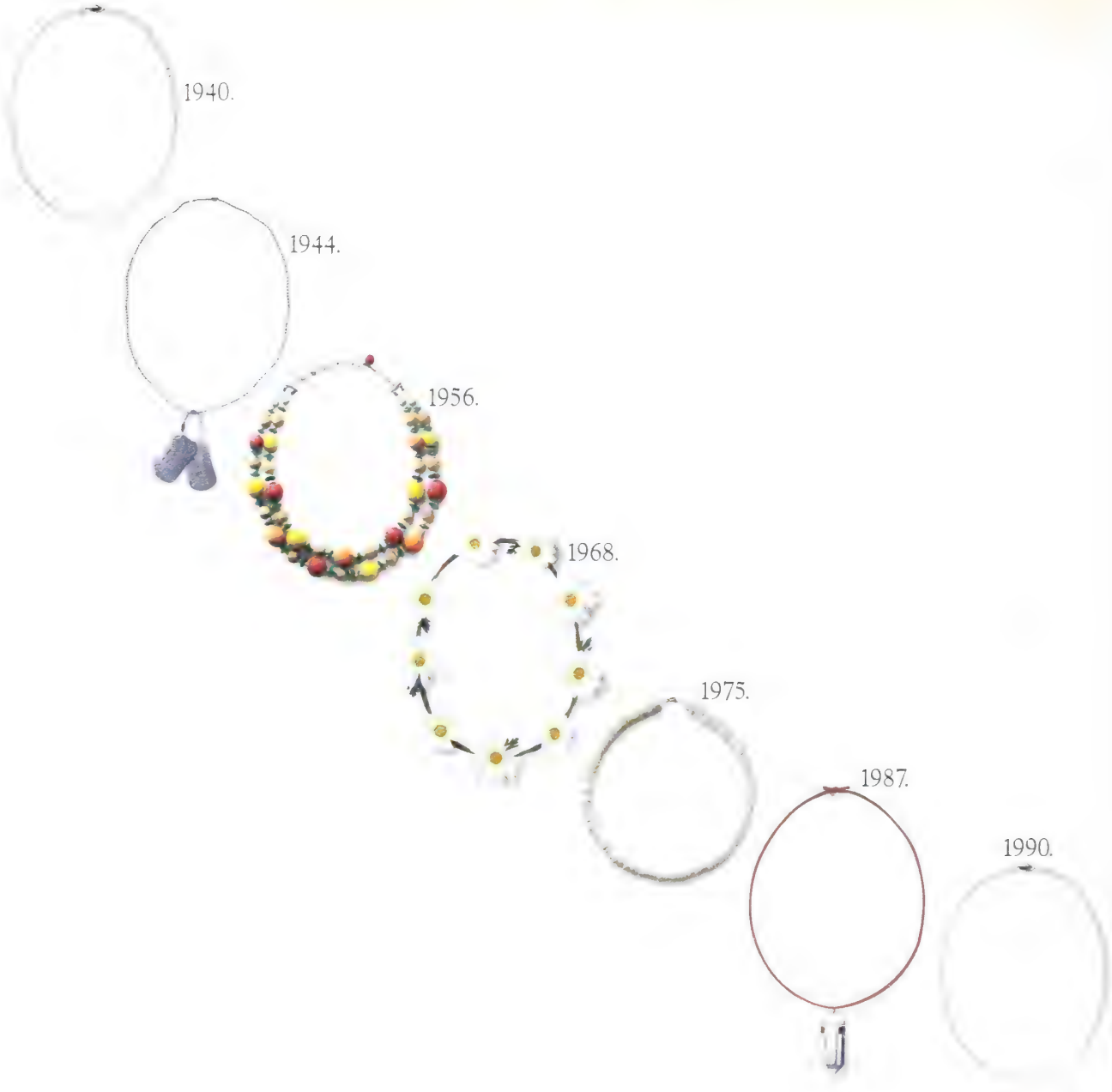

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Readers Report

IF IT LOOKS AND SOUNDS LIKE A RECESSION . . .

Regarding ("Are we in recession?" Cover Story, Aug. 13): I've never forgotten a reader's letter and your answer that appeared sometime in the middle of 1970. The reader asked if the editors of BUSINESS WEEK had decided whether or not the U. S. economy was in a recession. Your answer: "If something looks like a duck and quacks like a duck, chances are it's a duck." Quack, quack!

Peter B. Baker
Worcester, Mass.

THE VOLVO-GM VENTURE IS NO FOREIGN FOE

In this age of global competition, I find it interesting that U. S. companies with subsidiaries outside the U. S. are called "multinationals," but a joint venture such as ours (ownership 76% Volvo, 24% General Motors) is considered a "foreign competitor" ("Navistar labors up another hill," The Corporation, July 30). Reported industry statistics show that Volvo GM Heavy Truck was the only U. S. heavy-duty truck manufacturer in 1989 that was a net exporter (exporting more trucks than it imported). And, beginning in 1991, all trucks we sell will be U. S.-made.

Volvo GM Heavy Truck is considered a leader in terms of modern product line in the industry, but by no means are we the "low-cost product." We believe in and seek a better price for our better product features and benefits. However, we will meet competitive prices aggressively to maintain our market share.

Thage Berggren, CEO
Volvo GM Heavy Truck Corp.
Greensboro, N. C.

ARE OVERSEAS COMPANIES PAYING THEIR FAIR SHARE?

I'd like to expand on your recent article "Can Uncle Sam mend this hole in his pocket?" (International Business, Sept. 10). As required by the SEC in the U. S., Sony Corp. reports sales in the country where customers buy our products. The profit earned on the marketing of these products is accounted for in the country where they are sold as well. However, profits also justifiably accrue to manufacturing, much of which is still done in Japan. Therefore, the Japanese sales number is only for the Japanese domestic market, but the Japanese profit number includes profits from domestic sales as well as some from Japanese-manufactured products sold outside Japan. The sales and profit figures that you cited for Sony properly reflect this division and are consistent with the practices of U. S. multinationals who manufacture here and sell overseas.

At the same time, Sony's practice has long been to establish manufacturing capability where its markets are, to promote the self-sufficiency of its local operations. In our 30 years in America, for example, we have invested more than $1 billion in U. S. manufacturing facilities that now produce about $1.5 billion of goods annually, export approximately $400 million, and support jobs for over 9,000 Americans. A planned additional manufacturing investment of approximately $1 billion by Sony in the U. S. over the next five years will further increase employment, sales, and profits in this country. We feel—I think justifiably—a strong sense of pride in this record and in these plans for the future.

Another point to note is that the corporate tax rate in Japan (as is the case in Germany) is considerably higher than in the U. S. (about 52%, compared with the U. S. federal tax rate of 34%) and provides no business or tax incentive to shift income to Japan.

Neil Vander Dussen, President
Sony Corp. of America
Park Ridge, N. J.

MONITORING THE VITAL SIGNS OF HOSPITAL MANAGEMENT

My experience as an independent accounts-payable auditor for hospitals confirms everything your article "Hospital, heal thyself" (Industries, Aug. 27) pointed out—and then some. I see in hospital after hospital an inability to do something as simple as accurately fill out a purchase order.

You mention Baxter Healthcare's inventory systems for hospitals. I'm inher-

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eaders Report

tly skeptical of any vendor that shes a system, designed and managed that vendor, that seeks to produce ormation—such as pricing—about ducts which that vendor supplies.

John M. Weiss Jr.
Managing Partner
The Audit Group
St. Louis

n your article, you unequivocally state: "Hospital operating costs are ing faster than inflation, a sign of ppy management." If true, one should nclude that any industry in which op- ting costs are rising faster than infla- n shows signs of sloppy management, l that any industry in which operating ts are rising more slowly than infla- n shows signs of good management. eposterous.

Gareth K. Hudson
Executive Vice-President
Lee Memorial Hospital
Fort Myers, Fla.

E DANGER OF A E-VOICE COMMUNITY

erhaps the greatest threat of com- munitarianism ("Your rights vs. my ety: Where do we draw the line?" ial Issues, Sept. 3) is that it sounds so sonable to so many. Yet, while com- nitarians may appear to be very mid- -of-the-road, they share one thing h those on the right—an appeal to r. Individual freedom is always the t victim when people feel endan- ed. That is why liberty becomes so gile in time of war, be it real war or "war" on drugs.

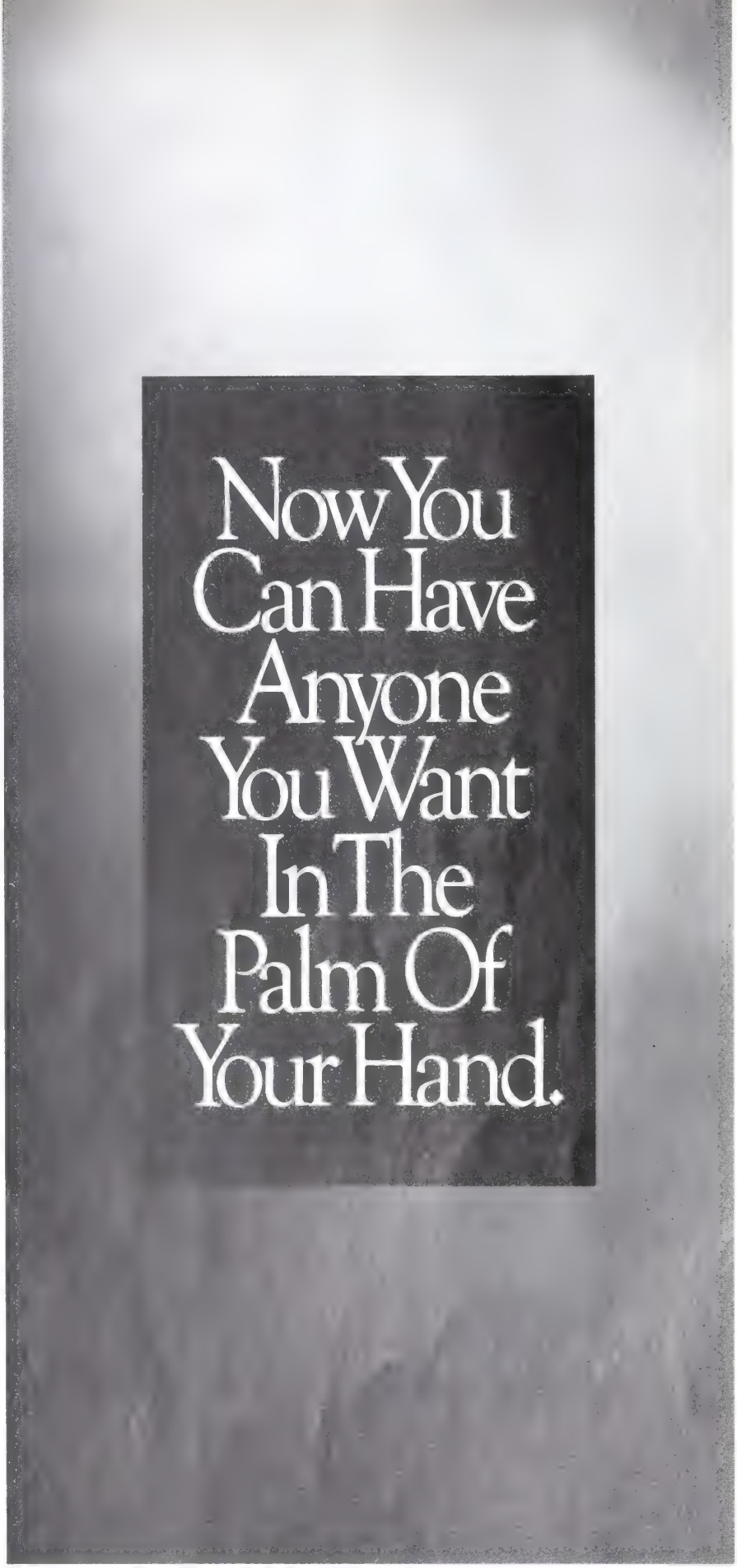
J. D. Wheeler, President
Peoria (Ill.) Chapter
American Civil Liberties Union

he emerging "communitarians" would do well to visit any university ary and read almost any history book m any era. They will find their shal- , yet appealing, argument (that our iety's problems stem from an overem- asis on individual rights vs. the rights society at large) is the very same ument so eloquently advanced in the eches of two of this century's most verful orators: Benito Mussolini and olf Hitler.

Timothy J. Sinnott
Fort Pierce, Fla.

Y TRAVELERS IS BULLISH MANAGED CARE

ontrary to the picture painted by the article "Travelers is drawing itself a tuous roadmap" (Finance, Sept. 3), naged care—characterized by HMO-



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Readers Report

:e operations with primary-care physi-
ıns as gatekeepers—has become the
alth care model for the 1990s.

Employers as diverse as Allied-Signal,
'&T, Procter & Gamble, RJR Nabisco,
ells Fargo Bank, and Southwestern
ıll have adopted such plans to help
strain rising health costs. Many more
mpanies will announce similar plans in
e coming year.

Health benefit costs for employers
th managed-care plans are running at
% of costs of traditional indemnity
ıns. And better-managed HMOs are de-
ering comparable reductions.

We believe insurers that are prepared
make the large investment required
develop effective nationwide health
tworks stand to gain significant busi-
ss. So far, only a handful of insurers
which Travelers is one) have made
s commitment.

Lawrence B. Leisure
Vice-President
'owers, Perrin, Forster & Crosby Inc.
Valhalla, N. Y.

LIS TRADING AND SARASIN:) CONNECTION

would like to emphasize that I and
Bank Sarasin & Cie. have at all times
ly cooperated with the Securities &
change Commission investigation
nsider trading: The intricate case of
is AG," Finance, Aug. 27). We do not
ve and never have had any knowledge
any insider trading activity by Ellis
and object vehemently to the improp-
innuendos to the contrary in that arti-
. While Ellis AG was an affiliate of the
nk prior to 1984, the bank never had
y involvement in any Ellis trading ac-
ity.

The SEC has been investigating trad-
; activity at Ellis for at least six years
d has had extensive access to Ellis
cumentation through request for in-
rmation under the Swiss & American
eaty. Whatever may be the ultimate
sults of the SEC investigation as to El-
itself, I would have thought that re-
onsible journalism would not continue
repeat vague suspicions unsupported
any evidence.

We were not involved in the alleged
ding of Ellis AG, we were never ac-
sed, and we never traded based on
terial nonpublic information.

Alfred E. Sarasin
Bank Sarasin & Cie.
Basel, Switzerland

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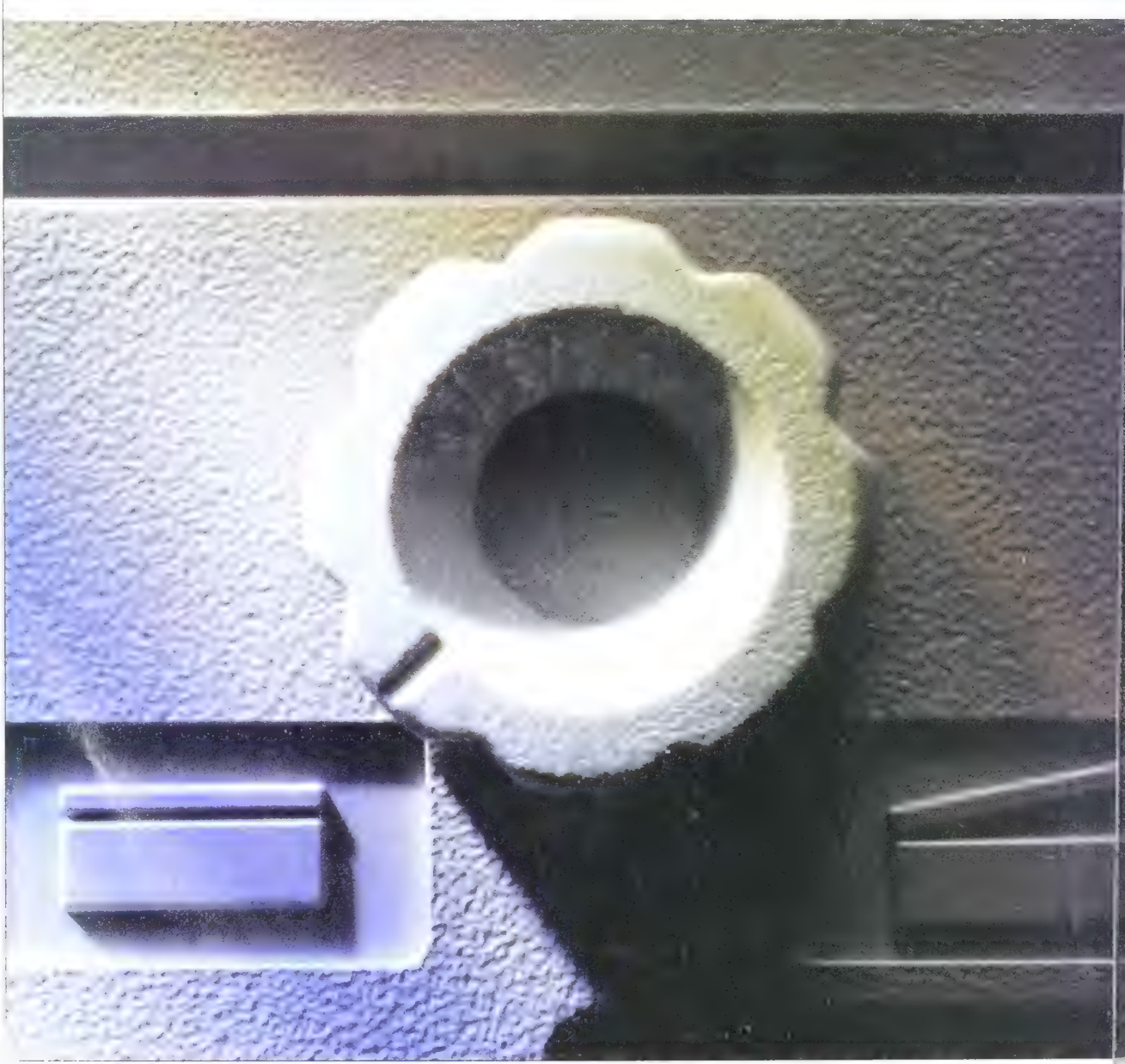

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W. W. Norton • 345pp • $21.95

RACISM, 'VICTIM POWER,' AND WHITE GUILT

PROTESTING THE HOWARD BEACH INCIDENT, 1986: IN NEW YORK, GROWING TENSION

In the 1960s, the civil rights movement fought hard against the discrimination, segregation, and violence that victimized black Americans and poisoned the nation's communal life. This work opened up considerable opportunity for blacks. But the movement had a larger goal: creating an integrated, progressive, truly humane society. In late 1990, that vision remains elusive.

Yes, the black middle class has grown, and blacks have assumed political leadership in major cities. But urban ghettos have decayed and spread, and black college-graduation rates are down. Relationships between blacks and whites are still often strained. Racist incidents have surged, as have separatist demands, angry accusations of racism, and equally angry denials. Integration, it seems, has become an old-fashioned goal.

How can we break this depressing stalemate? Two new books, *The Content of Our Character* by Shelby Steele, a black writer, and *The Closest of Strangers* by Jim Sleeper, a white, suggest that progress depends on returning to integrationist goals, with a strong measure of black self-help thrown in.

Both authors acknowledge white racism as a continuing barrier for blacks. But each—Steele on the personal front and Sleeper on the political—argues that emphasizing black racial identity, victimization, and entitlement has placed blacks in an adversarial position to the mainstream. That position is fatiguing, self-denying, and finally, unconstructive.

Steele's book, a series of well-written essays, offers a searching look at how these dynamics play out for blacks as individuals. The essays are part social psychology, part painful self-examination, and part prescription. Steele's views, already expressed in magazines, have set off an outcry among blacks, because he criticizes affirmative-action programs, black dormitories on campus, and many black community leaders.

Steele, a professor of English at San Jose State University in California, also takes on what he sees as a kind of orthodoxy of allowable black thought. This "party line," he says, censors individuality. It also promotes a disabling "victim psychology" in blacks that equates victim status with virtue and allows individuals to avoid self-examination and to rationalize failure.

In Steele's analysis, blacks and whites have struck a bad bargain, one that gives both groups a stake in racism. The payoff for blacks—"victim power"—underlies some leaders' exploitation of racial incidents, such as the horrifying 1986 clash in the Howard Beach neighborhood of Queens, N. Y., in which pack of white youths set on three bl men, chasing one to his death under wheels of an oncoming car.

For whites, on the other hand, g provides a cheap form of redemption also leads to Great Society largess special treatment based on color. S programs and policies, says Steele, s matize recipients, subject them to s doubt, and reinforce dependency and equality. "There will be no end despair and no lasting solution to any our problems until we rely on individ effort within the American ma stream," he writes.

Of course, most blacks in America ert plenty of effort. And Steele is sophisticated to draw such simple dic omies as affirmative action vs. self-r ance, welfare vs. bootstraps. The r choices are not so absolute, and he d endorse programs to help people communities develop.

Steele's description of his own effo to define himself in human, rather t racial, terms is moving and persuasi And the self-protective but debilitat victim psychology he describes seems understandable reaction to prejudice discrimination. But Steele's argum downplays the roles of stereotyping institutional racism. Still, his explorat of the question, "How is one to m on?" is thoughtful, personal, and, a all, rather brave.

Jim Sleeper's book poses a differ question: Can New York's blacks whites—his "closest of strangers work together for the good of all? Sl er, an editorial writer for *New Y Newsday*, paints a dispiriting picture race, politics, and racial politics in Besieged Apple. His knowledgeable overlong book covers nearly a cent of racial enmity and rapprochement. focus, though, is on recent years, w racial tensions mounted and a l standing black-liberal alliance sho strain. While that alliance gave N York its first black mayor, David Dinkins, his two-point victory, s Sleeper, was "chillingly narrow."

In the end, Sleeper offers almost u lieved criticism of New York's black litical leadership in the late 1980s. charges some leaders with indulgin separatism, antiwhite lies, and race-b ing—and others with failing to challe those doing the grandstanding. Such tics, he writes, have polarized the and accomplished little. Racial an Sleeper argues, doesn't address gh drug abuse or black-on-black crime. ter to attack the economic problem the poor, whites as well as blacks. ter to take on the true powers that the party hacks and the real estate i

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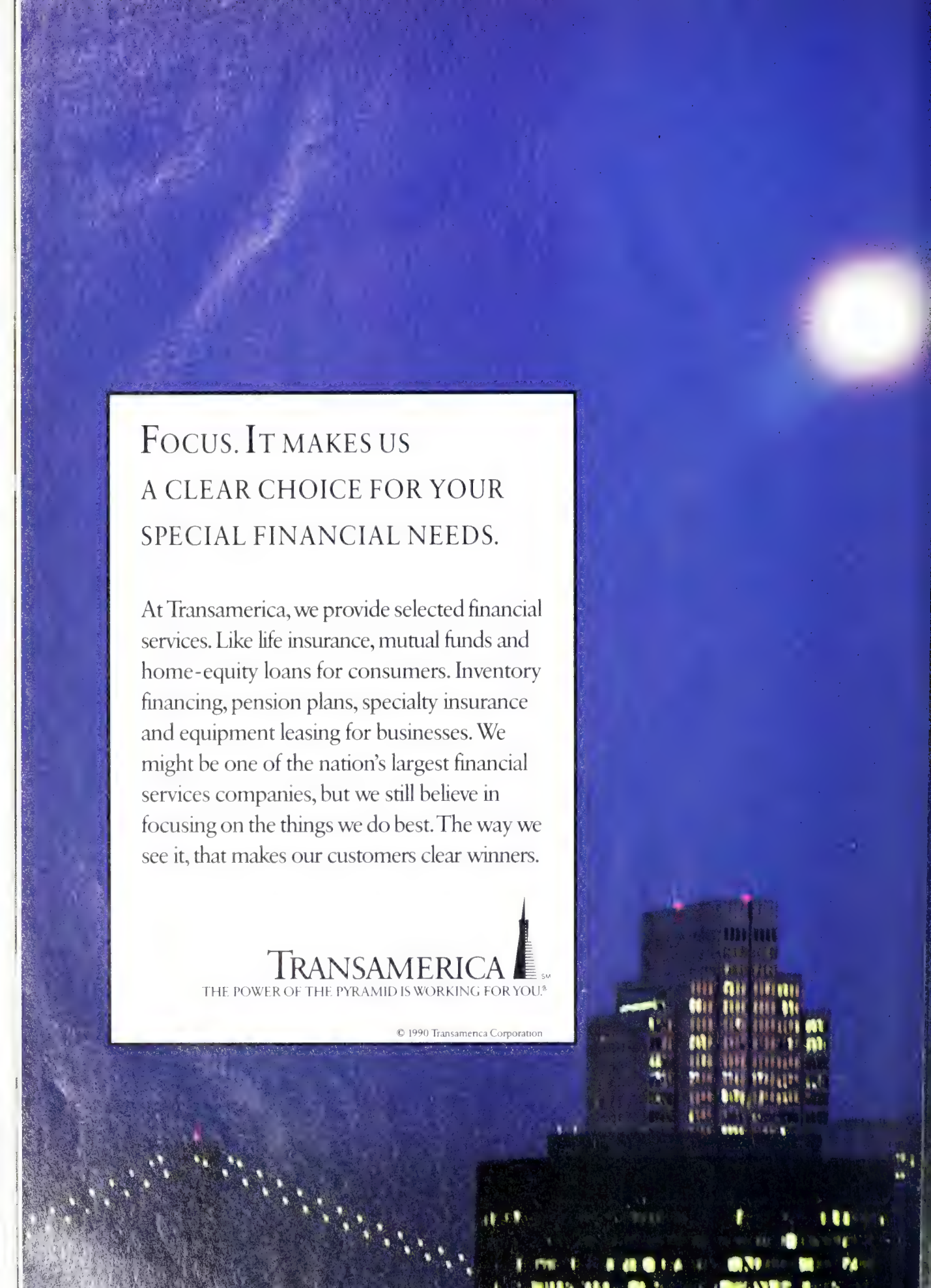
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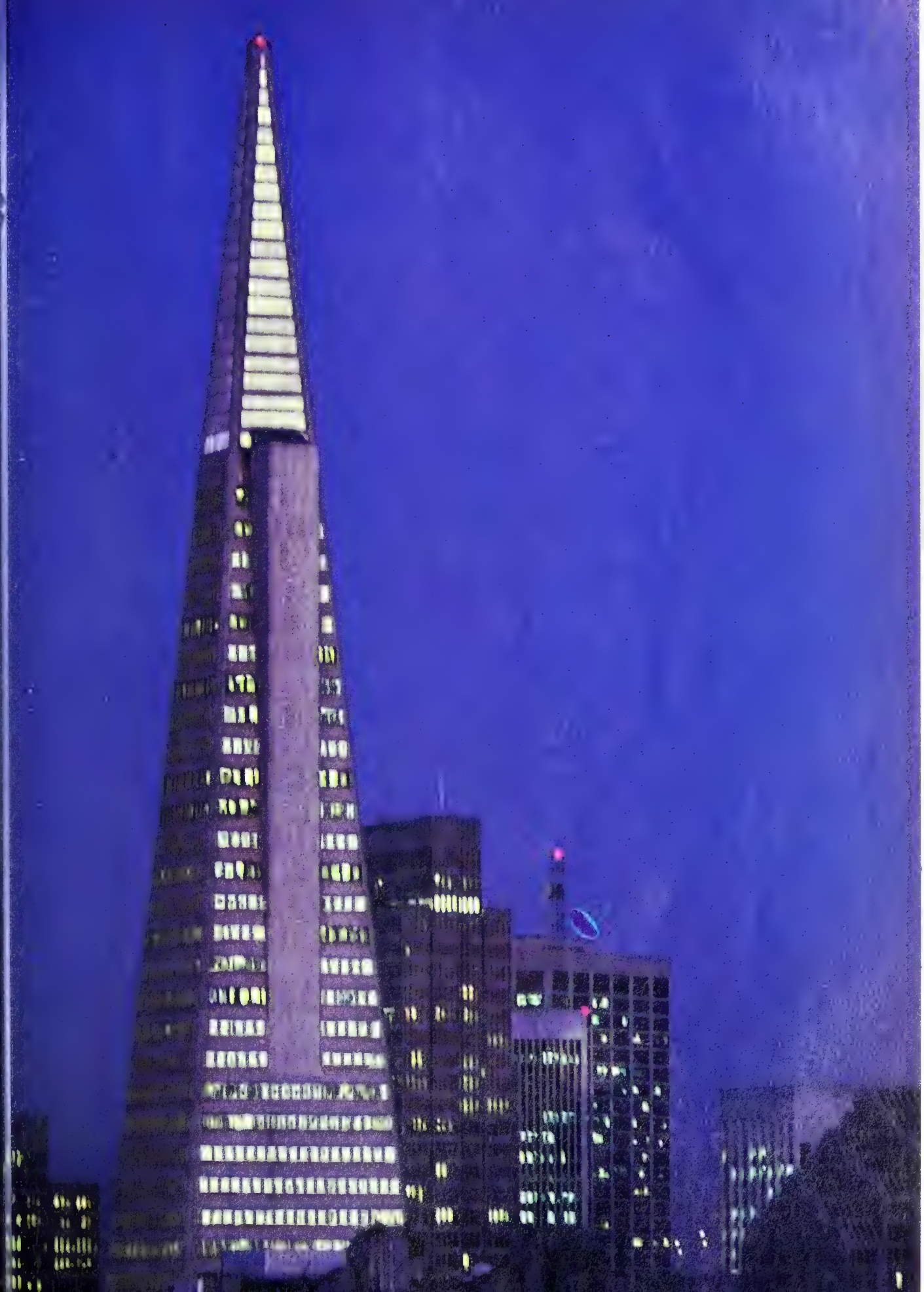

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Books

ests—than to alienate white alli

Sleeper lays a share of the blame white liberals. They, too, he believ have shifted from demanding "co blind respect of individuals" to argu for redress and entitlement on grounds of racial victimization. Inde Sleeper suggests that many owe th livelihoods as social workers and l yers to this shift. Thus, Sleeper g over some of the same ground as Ste

Sleeper, however, sees the best h for equality not in individualism but "interracial work toward shared econ ic and political goals." He repeate praises the Industrial Areas Foundat a community group inspired by Chic

Both authors suggest that progress depends on a retu to integrationist goals, plus a large dose of black self-he

organizer Saul Alinsky, which reclai a bleak corner of Brooklyn in the 19

But the good news is brief. And Sle er's charges are strong stuff. Are t legitimate? Sleeper is surely right to sist that leadership be accountable that the black community engage in structive action. But the worst proble of New York's ghettos can't be blam on black hostility toward whites or leadership. Sleeper's bitter book i challenge, but not the last word in w should be a conversation—about pov burden-sharing, common sense, and secret subtext of the race debate, cl

Moreover, with growing social equality hitting the black community proportionately hard, there is a danger that Sleeper's emphasis and gument—and Steele's—can be misus

Yes, individuals must take respons ity and strive. Troubled commun must gather their resources to battle cial ills, and writing off allies makes tle sense. But if racial denunciat won't give a black crack baby a s stable home and a sound education, ther will exhortations to move bey viewing oneself as a victim. Suppor policies and real links from the m stream to the ghettos are needed. deed, the possibility that white Am cans will try to write off the ghettos the responsibility we all bear—on ground that it is up to blacks to s their problems—is a threat far gre than those raised by Sleeper and Ste

BY ELIZABETH EHR

Ehrlich is BUSINESS WEEK's Social Is editor.

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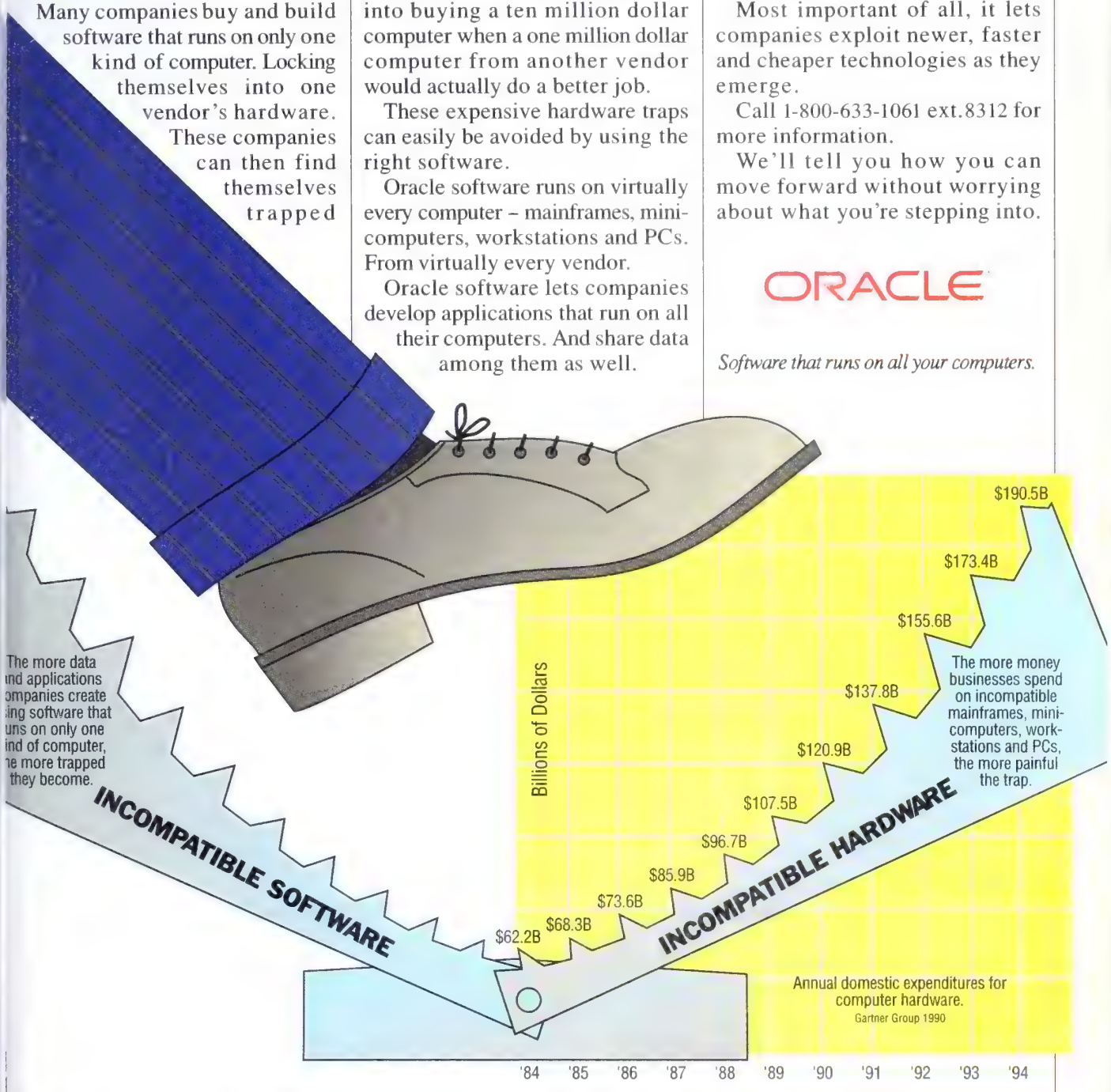

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ACTUALLY, SMALL-FRY NATIONS CAN DO JUST FINE

BY GARY S. BECKER

Bigger isn't necessarily better when it comes to per capita income. Smaller countries tend to be more nimble traders in international markets, offsetting their lack of economies of scale

When separatists in Quebec, Lithuania, Ethiopia, Sri Lanka, Spain, and elsewhere demand secession and independence, they are often accused of encouraging the formation of states that are too small to be economically viable. But it is not at all clear that on balance large countries have decisive economic advantages.

The average annual growth in per capita income from 1960 to the mid-1980s in the top 50% of countries as measured by population size was no larger than the average growth in the bottom half, and countries with relatively few square miles even grew a little faster than countries with larger areas. Differences in per capita growth rates were also negligible between large and small countries that in 1960 had comparable educational levels and per capita incomes.

These surprising conclusions are based on data compiled by University of Pennsylvania economist Robert Summers and his associates. Not only are growth rates similar, but per capita incomes are also no higher in larger countries. Indeed, countries with either bigger populations or larger areas tend to have slightly lower per capita incomes than smaller countries.

Why should this be? Obviously, small countries are limited by the size of their domestic markets. These are not big enough to permit economies of scale in production of cars, steel, planes, or many other products. Even so, nations can increase their markets through international trade, something that has become easier in recent decades with the rapid growth in world commerce. And small countries do rely more on the world economy—exports are a larger fraction of the incomes of smaller countries than of larger ones.

LONG FOCUS. Yet the large international market does not entirely substitute for small domestic markets, since trade between nations is limited by tariffs and quotas. The international movement of people is even more tightly regulated. Both goods and people usually can flow much more freely between regions and other sectors within an economy than across national borders.

For example, Quebec residents are able to move to Toronto or sell goods to Vancouver without worrying about the tariffs, immigration quotas, and other factors that impede flows into the U. S. or Mexico. Goods from the Ukraine have better access to markets in the Soviet Union than in Western Europe. Smaller countries tend to specialize in products that do not require large domestic markets. Instead of cars or planes, Chile exports fruits and vegetables, Israel sells small arms, the tiny island of Mauritius produces textiles to ship abroa and, of course, Kuwait produces oil.

But big countries also have vario economic problems that offset the a vantages of large internal markets. O of the more important arises from t harm caused by the jockeying of intere groups for subsidies and favorable reg lations. The many different sectors large economies get political favors th raise taxes and the cost of goods a labor to other sectors. In this way, go ernment aid to grain producers in Can da's West raises wheat prices in Queb and other Eastern provinces, while and gas subsidies to the East are at t expense of Western producers.

KING COTTON. Conflict between intere groups in large countries even leads serious civil disturbances. Without dou the clash over slavery in the U. S w the clear and immediate cause of t Civil War. However, the South's desi to have low tariffs on manufactur goods from Europe and to widen wor markets for its cotton was also a maj source of friction, for its interests co flicted with those of New England ma ufacturers. They wanted tariff prote tion for their goods to avoid competiti from Europe, and also low prices f Southern cotton, which was a raw ma rial in the North's textile industry.

By contrast, there are fewer opport nities to promote policies that impo cost on other sectors in the more hom geneous economies of small countrie It's not surprising that countries w fewer economic regulations tend to small. Examples are Taiwan, Singapo and Chile.

I doubt that the integration of Ea and West Germany will yield great economic advantages than they wou have enjoyed as two separate mark oriented countries permitting free mo ment of people and goods across th borders. The main problem with t East German economy has not been small size but the centralized directi and state ownership of industry. Inde integration is causing a conflict betwe groups in East and West Germany th will slow down needed reforms in t East. That region wants its afflue cousins in the West to subsidize the co tinuation of inefficient uses of labor a capital, and several wildcat strikes ha broken out in the East to demand slow changes and bigger handouts.

To be sure, nationalism and eth conflicts and loyalties, not economic c culations, are usually the inspiration secede from larger states. But whatev the motives, the statistics on actual p formance show that dire warnings ab the economic price suffered by small tions are not at all warranted.

GARY S. BECKER IS UNIVERSITY PROFESSOR OF ECONOMICS AND SOCIOLOGY AT THE UNIVERSITY OF CHICAGO

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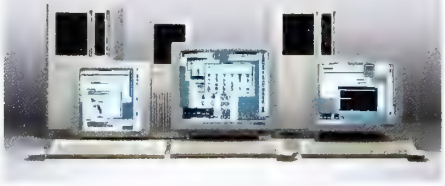

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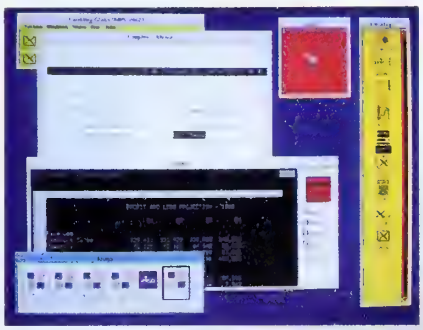

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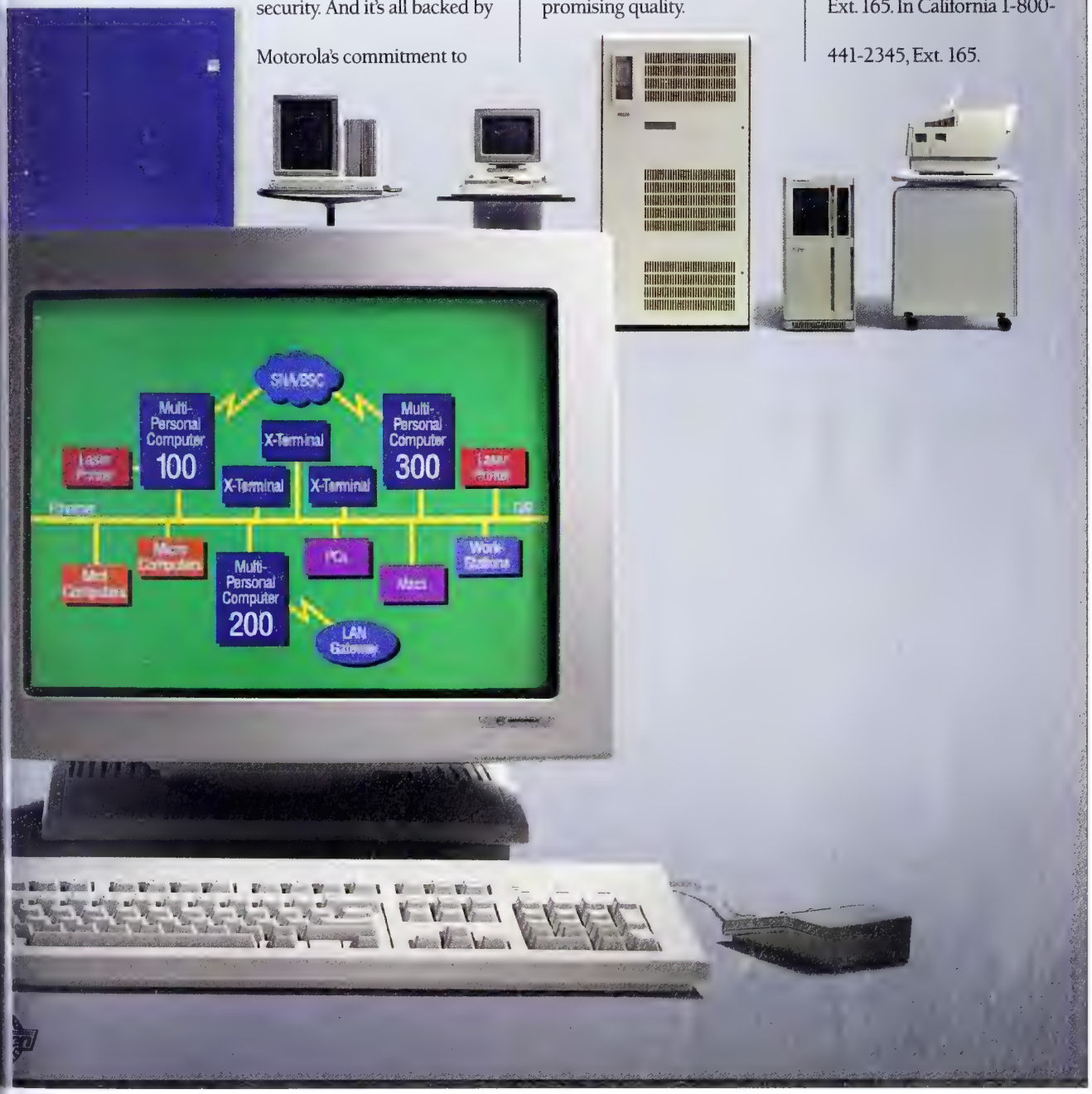

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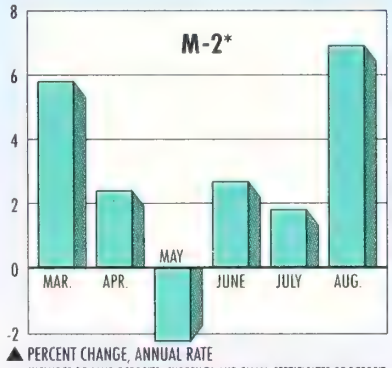
BY CHRISTOPHER FARRELL

A SIGN OF ECONOMIC REVIVAL THAT WON'T FULFILL ITS PROMISE

Rich or poor, it's good to have money, goes the old quip. The same holds true for the economy. If money growth is accelerating, the pace of economic activity typically picks up sometime in the future. And vice versa, of course. The most widely watched measure of money, called M-2, jumped at a 6.7% annual rate in August—a sharp increase over the preceding several months (chart). But the revival in money-supply growth may not signal that an economic turnaround is in the offing.

THE RECENT SURGE IN MONEY GROWTH



▲ PERCENT CHANGE, ANNUAL RATE

*INCLUDES DEMAND DEPOSITS, CURRENCY, AND SMALL CERTIFICATES OF DEPOSIT, MONEY MARKET FUNDS, AND SOME REPURCHASE AGREEMENTS

DATA: DRI/McGRAW HILL

Instead, it may be a sign that the public is preparing for worse economic times. According to Robert V. DiClemente, an economist at Salomon Brothers, currency and money market mutual funds, which make up only 17% of the M-2 number, accounted for roughly 65% of the gain. The currency boom stemmed mostly from a flight into cash by both Americans and foreigners after Saddam Hussein's tanks rolled into Kuwait. The rise in money market funds showed an exodus from stocks, bonds, and other financial assets.

Meanwhile, lending activity is sluggish, with real estate and consumer-lending rates flat at commercial banks. And bank business loans are in a decline, even as such other sources of short-term business credit, such as commercial paper, ebb. Commercial-paper issuance by the nonfinancial sector has dropped by $6 billion since mid-June. Neither monetary nor credit policies are providing the kind of high-octane fuel the economy needs to get going again.

THE FED'S CLOUT JUST AIN'T WHAT IT USED TO BE

The Fed's freedom to ease, say economists, is sharply limited by high yields abroad, a falling dollar, and uncertainty about the future course of U. S. inflation. More worrisome, however, is that even when the Fed does ease, the domestic economic impact may be more muted than in the past.

The reason: Interest rates don't affect housing as much as they once did because of financial innovation and deregulation, says Randall J. Pozdena, an economist at the Federal Reserve Bank of San Francisco. He finds, for example, that from 1960 to 1982, changes in interest rates, as measured by Treasury bill rates, accounted for 60% of the changes in housing starts. But from 1983 to 1989, the interest-rate impact on housing shrank to 21%. So the housing market is no longer a reliable channel linking Fed policy changes to economic activity.

The end of interest-rate ceilings on deposits, coupled with explosive growth in the secondary-mortgage market, meant that there was always mortgage money available if buyers were willing to pay the price. In addition, adjustable-rate mortgages (ARMs) offer an alternative to the traditional fixed-rate mortgage.

True, housing starts are down 37% from their 1986 peak—but not because of Fed policy or government-imposed credit restraints, as in past business cycles. Instead, there is an excess supply of homes, and the public is holding back in the face of a soggy economy. The weakening link between interest rates and housing suggests that Fed easing—when it comes—won't spur homebuilding or buying much.

NEW ENGLAND'S ECONOMIC GLOW WAS ONLY SKIN DEEP

New England was the economic miracle of the 1980s. Yet its economy slowed last year with a speed that took the region's many boosters by surprise. Writing in the latest issue of *New England Economic Review*, Edward Moscovitch, president of Cape Ann Economics, offers an intriguing theory of what went wrong.

The region's strong overall growth from 1984 to 1988 was based on a spectacular boom in construction, argues Moscovitch. But the remarkable gains in employment and economic activity fr that construction surge masked for s eral years growing weakness in the ea's critical economic base—its manu turing industries. Now that the estate boom is over, it has become creasingly apparent to all that New gland's difficulties run deep.

The region's traditional nondura goods manufacturing industries h been in steady decline for years. She textiles, and apparel—all businesses t depend on cheap labor—are har about to revive in high-cost New gland. And the region's durable-go manufacturing sector—businesses s as computers, transportation equipm electrical equipment, and instrument have also lost their competitive positi to other parts of the country. Dura goods manufacturing employment by roughly 130,000 from 1984 to 19 while national employment in that se rose. The area lost market share ma to the South Atlantic and Moun States.

New England's competitive positio manufacturing has eroded at a fas rate than any other region in the co try during the past several years. W the national economy continuing to sl New England's current decline is lik to get a lot worse before the area's p pects improve.

WHO'S THE BAILOUT HELPING? THOSE WITH BIG, FAT BALANCES

What sort of depositor is be helped by the government bai of savings-and-loans? To come up w an answer, the Southern Finance P ect, a research center based in Charlo N. C., studied 54 of the largest fa S&Ls, with assets of $183 billion by y end 1989.

They found that deposits with ances of more than $80,000 made 32.1% of the failed thrifts' total depo at yearend 1989. In several instan these large balances represented up 70% of an institution's deposits. By trast, such deposits were 23.4% of t deposits for the rest of the industry

In addition, "jumbo" CDs—of m than $100,000—averaged $407,926 at busted thrifts, compared with $215 for the remaining S&Ls. Even tho these are more than the $100,000 in ance limit, the government has prote large CD depositors. Data such as th suggest that the bailout has gone beyond safeguarding the average depositor—who had only $8,738 at local S&L.

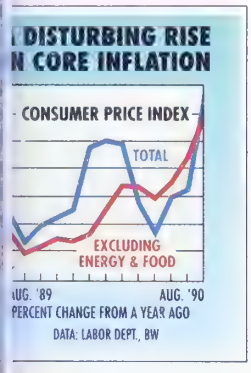
TOBER 1, 1990

BY JAMES C. COOPER AND KATHLEEN MADIGAN

VITH NUMBERS LIKE THESE, T MIGHT AS WELL BE A RECESSION

t's far from certain, but August might well have been the month when the U. S. economic slowdown turned into a recession. Data due out in the weeks ead will tell the tale, but if they are anything like last nth's numbers, real gross national product in the rd quarter could easily post a decline.

In August, retail sales fell sharply. Industrial produc- n declined, as did operating rates. Private employment s down, and housing starts, already dredging reces- n levels, slipped further. A huge widening in the trade ficit for July means that foreign trade will be a drag third-quarter growth as well. And the full impact of 1990 oil shock hasn't even hit the statistics yet.



Iraq scored a direct hit on U. S. inflation in August. Both producer and consumer prices posted steep increases—with more to come. But even excluding energy and food, the core rate of consumer inflation continued to rise (chart). That's bad news for consumers. In coming months, they must find the cash to pay higher energy bills at a time when jobs are getting rce and when incomes are slowing down.

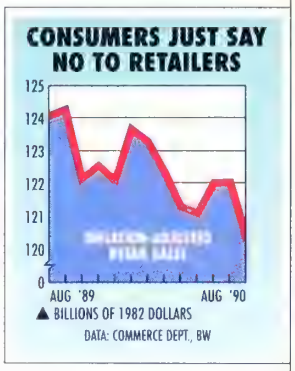
One thing that may prevent GNP from going under s quarter is hardly a sign of strength. Business inven- ies rose 0.7% in July, the largest increase in a year. at rise occurred in a month when business sales fell %. Keeping stock levels under control for the rest of year will crimp orders and production even further, ecially since the July jump in inventories occurred fore the demand-dampening effects of costlier energy. Even though the 1990 oil shock will be mild compared h the jolts of the '70s, it may be more than this weak nomy can withstand. For the first time in this expan- n, the data look characteristic of the broad, cumula- e declines associated with the start of past recessions.

ERVICE PRICES RE THE ROBLEM

The combination of imminent recession and stubborn inflation is every Federal Reserve Board chairman's nightmare. After looking at the August consumer price lex—along with all the downbeat numbers on economic growth—Alan Greenspan may not be sleeping too ll. As widely expected, the CPI jumped 0.8% in the nth, reflecting a 7.6% surge in gasoline prices and a 4% spike in prices for fuel oil.

But forget about oil. The real inflation problem is services. Prices of nonenergy services, half of the CPI, rose 0.8% in August. During the past year, they have climbed 6.4%, the fastest yearly pace since 1982. Medical care costs, up 9.7% over the year, lead the speedup.

It's not surprising, then, that the core rate of consumer inflation—a measure of the economy's underlying price pressures that excludes the volatile energy and food sectors—has also risen to the fastest pace in eight years. Core inflation rose 0.5% in August after a 0.6% increase in July. During the past year, the core rate is running at 5.5%, up from 4.4% in the previous 12 months.



Aside from energy, prices of consumer goods remain well-behaved. Excluding food and energy, goods prices are up only 3.7% over the year. That trend will continue. Higher energy prices boosted producer prices for finished goods by 1.3% in August, but the core rate for finished goods rose only 0.3% and has been trending down.

If the economy has indeed slipped into a recession, inflation will begin to abate in 1991—even in services—as it has done in past downturns. But until then, nagging inflation is one more burden, along with heavy debt and dwindling income growth, that seems likely to crush consumers.

NOBODY IS BUYING, SO OUTPUT IS DYING

Consumers seemed downright depressed in August. Retail sales slipped 0.6%, to $149.2 billion. And this shopping phobia is making store owners antsy: If it continues into the all-important holiday period, retailers won't have much Christmas cheer.

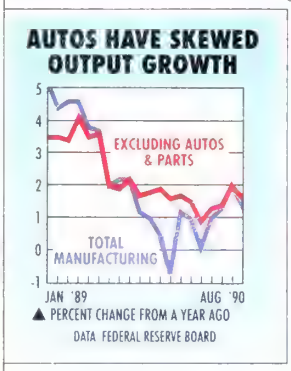
The August loss in sales would have been larger but for the 6.4% jump at gas stations—the result of higher prices. Elsewhere, buying of building materials fell 2.4%, car sales plunged 4.3%, and spending at department stores, food stores, and restaurants was down. In fact, store receipts are falling behind inflation's pace. Real retail sales are 3% below a year ago (chart).

Little wonder, then, that industrial production, particularly of consumer goods, is so sluggish. Output at the nation's factories, mines, and utilities slipped 0.2% in August after no growth in July. Production in the manufacturing sector alone fell 0.1%. Factory output rose at an annual rate of 2.5% in the first half, but so far in the third quarter, it is barely above its second-quarter level.

Most of the first-half strength was concentrated in a

ERIC HOFFMANN/BW

rebound in auto production. Carmakers helped boost industrial activity during the spring after depressing it in the winter. But by August, factory output—measured with or without autos—was growing by about 1.5%, much slower than the pace of a year earlier (chart).



What Detroit giveth, however, it can taketh away. One reason auto makers had lifted output was to guard against a possible strike in September. But auto workers and General Motors agreed on a contract without a work stoppage. Carmakers are now paring production schedules, which will be a drag on industrial output in the second half.

Reflecting the weakness in retail buying, production of consumer goods rose just 0.1% in August after falling 0.5% in July. Manufacturers of appliances and other home goods are feeling the pinch in particular.

Makers of business equipment aren't doing much better. Their output has risen 2.6% over the past year, but malaise was evident in the summer data on output of computer, industrial-machinery, and oil-drilling equipment—all of which declined. The recent paring of capital budgets for 1990 suggests that spending on business equipment will taper off by yearend, ensuring further production cuts down the road.

Meanwhile, manufacturers of construction supplies are getting hit by the housing recession, with no relief in sight. In August, housing starts fell to a 1.13-million annual rate, from 1.15 million in July. With long-term rates still on the rise, home construction is likely to slip further in the fourth quarter.

But weakness in manufacturing has kept at bay any price pressures that might have resulted from tighter use of production capacity. In August, industrial operating rates slipped to 83.1%, from 83.5% in July. Capacit utilization in manufacturing stood at 82.4%. Excludin the auto-related plunge in January, that's the lowes operating rate in almost three years.

Industrial activity would probably be even weaker businesses were not keeping such a careful watch o their inventories. Even though stockpiles at retailer wholesalers, and factories rose sharply in July, they ar still only 1.7% above their levels of mid-1989. And th ratio of inventories to business sales—usually a sign o inventory imbalances—remains relatively low.

EXPORTS ARE STILL A BRIGHT SPOT

Manufacturers can also count on som support from foreign markets. Tha didn't seem to be the case in July, whe exports dropped 6.4%, to $32 billion. I deed, the trade picture seemed to darken. Imports ad vanced 4.5%, to $41.4 billion, and the merchandise trad deficit widened to $9.3 billion, from $5.3 billion in Jun

Still, the foreign sector looks favorable. Exports ar growing at a 7.1% rate, year-over-year, which is bette than the 5.1% pace of total factory shipments. And fo eign demand, particularly from Europe, will get a fu ther lift from the recent weakening of the dollar.

In the short run, of course, the rise in oil prices wi make the import side of the trade picture look discoura ing. The nation's August oil tab will be at least doub the $4 billion of July. But because the Middle East cris is restricting the supply of oil, the actual volume crude oil entering this country will be reduced.

In addition, imports are slowing. Despite the July ris imports are up only 6.1% for the past year, compare with 11.2% for the year that ended in July, 1989.

However, that slowdown has come as a result of sa ging U. S. demand—and that's the biggest threat continued economic growth. This expansion would h eight years old in November. By then, the data will te us if we should have a celebration or a wake.

THE WEEK AHEAD

FEDERAL BUDGET

Monday, Sept. 24, 2 p.m.
The federal government is likely to post a startling $42.2 billion deficit in August, compared with a red-ink total of $22.2 billion in August, 1989, according to a survey of economists done by MMS International, a division of McGraw-Hill Inc. Part of the increase is the result of September Social Security outlays being paid in August because Sept. 1 fell on a Saturday. This means that September—the last month in fiscal 1990—will show a bigger surplus than normal. The savings-and-loan bailout, plus the gulf crisis, will also add to government spending. So by yearend, the deficit could be $220 billion, up from $151.9 billion in 1989, and close to the record $221.2 billion posted in 1986.

DURABLE GOODS ORDERS

Wednesday, Sept. 26, 8:30 a.m.
New orders placed with durable-goods manufacturers probably declined about 0.8% in August after rising 2.8% in July. This is suggested by the 0.2% decline in factory output for the month.

PERSONAL INCOME

Wednesday, Sept. 26, 10 a.m.
The MMS consensus calls for a modest 0.4% increase in personal income for August, following a 0.6% gain in July. Consumer spending likely edged up just 0.2% in August after rising 0.5% in July. A gain in service spending probably offset a decline in goods purchases, as su gested by the 0.6% drop in retail sale However, with consumer prices postir an 0.8% rise in August, both person income and consumer spending probab decreased after adjusting for inflation

LEADING INDICATORS

Friday, Sept. 28, 8:30 a.m.
The government's composite index leading indicators dropped sharply August, probably by at least 0.7%. Th is suggested by falling stock prices, steep plunge in consumer expectatio fewer building permits, and rising une ployment insurance claims. In July, t index was flat. It was up in only three the past seven months, suggesting th economic growth will slow into 1991.

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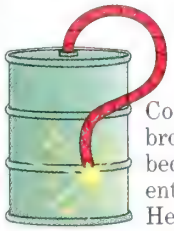
■ THE IRAQ CRISIS

THE FEAR FACTOR

GULF JITTERS HEIGHTEN BUSINESS CAUTION



You might figure Edward E. Anderson for an optimist. The 43-year-old president of ComputerLand USA just broke ground for a five-bedroom home in an affluent San Francisco suburb. He needs the room for his newborn twin girls.

But don't be fooled. As the computer retailer's sales growth began skidding this summer, Anderson turned bearish on the economy. And when Iraq invaded Kuwait, he knew that the already bad fundamentals hurting his business were about to get worse. Since early August, he has slashed the budget of his $2.1 billion company by 10%, frozen staffing levels, and cracked down on company travel. "There's a potential for craziness in the gulf," he explains. "I'm in a batten-down-the-hatches mode."

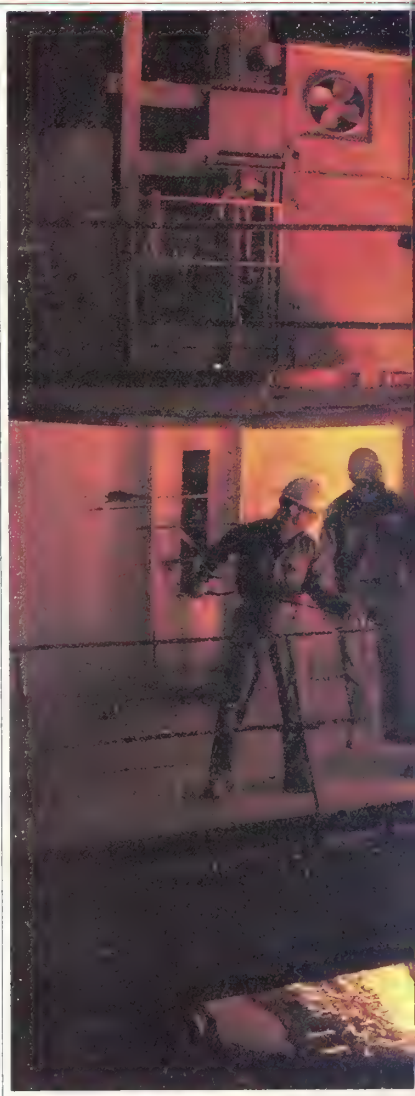
Call it the Iraq effect. Just seven weeks after Saddam Hussein stomped into Kuwait, sending oil prices spurting, executives across a broad expanse of U. S. industries tell BUSINESS WEEK that they feel growing unease about the nation's economic health. For good reason. Even as Washington lurched toward a solution to the federal budget deficit, the first economic data since the Aug. 2 invasion show that spiking energy costs are battering the economy, slowing job growth, boosting inflation, and crimping consumer spending.

The energy news will probably get worse before it gets better. The American Petroleum Institute reported that for the week ended Sept. 14, oil imports fell to an average of 6 million barrels a day from 6.9 million. Gasoline price rises may moderate, since oil companies, fearing a public backlash, probably won't pass on all their costs, but supplies should stay tight for weeks until replacements for Kuwaiti and Iraqi oil begin to arrive.

In the main, executives are responding to the darkening economic scene with caution, not drastic measures. While many are clamping down on costs and hiring (chart), only a handful are cutting capital spending or research and development. Even companies that stand to gain from the Iraqi invasion are wary. Explains Tony Lentini of Houston-based Mitchell Energy & Development Corp.: "Nobody is jumping in the streets and going out and drilling like crazy. Everybody has been burned once, twice, and again. We need price stability."

In the coming months, though, oil companies may follow the path blazed by Chevron Corp. On Aug. 7, just five days after the invasion, the California oil giant committed $100 million to step up development of existing fields. In part, Chevron was trying to offset the loss of 4 million barrels a day from Kuwait and Iraq. But just as important, says a spokesman, "oil prices justified more drilling. The floor has risen."

LEANER. But what's promising for Chevron is threatening to others. In the face of energy prices that may stay high, "we'll be running very lean and very cautiously in the coming year," says Harold Gershowitz, executive vice-president of Waste Management Inc., which operates 10,000 diesel-burning garbage trucks. Since the Iraq crisis began, the world's largest waste handler, which last year earned $562 million on sales of $4.5 billion, has begun requiring more layers of approvals for new hirings. It is also casting a stern eye on nonessential spending. "No one suspends our service because business is bad," says Gershowitz. "But even we are not immune in a weak economy."



MANUFACTURING HEAVY INDUST BACK ON O

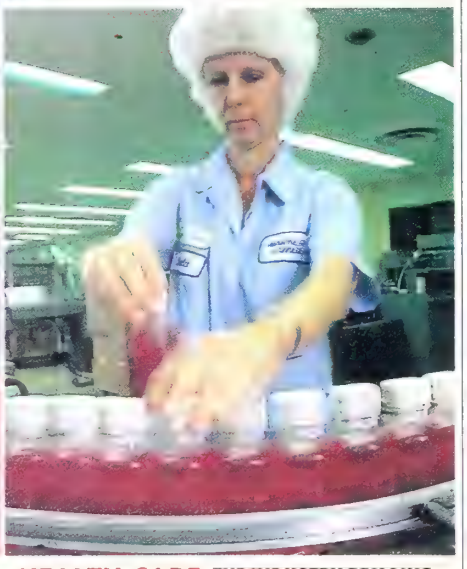
If profit machines such as Waste M agement are tightening up, compan that struggled in more benign times sounding the alarm. "The customers backing off," says Frank M. Sims, sen vice-president at heavy-equipment mal Clark Equipment Co. With the gulf sis hastening the deterioration of business environment—Clark posted 50% drop in second-quarter earnings Sims is "reexamining every project make sure every dollar has impact."

Likewise, Cummins Engine Co., wh expects a hefty third-quarter loss cause of weakening demand for its sel engines, is asking for volunteers accept layoffs. It's also cutting back erating hours at its huge plant in Colu bus, Ind., citing "prevailing economic certainty and recent developments in Middle East."

The oil shock has been especially cr to the likes of Clark and Cummins. fore the price rise, economists and ma

IEVED, IN A RECESSION EVEN BEFORE THE OIL SHOCK. NOW, SOME FACTORIES ARE CUTTING ND THERE HAVE BEEN SOME LAYOFFS. "CUSTOMERS ARE BACKING OFF," SAYS ONE EXECUTIVE

ENERGY PUBLIC ANGER MAY KEEP GAS PRICES IN CHECK



HEALTH CARE THE INDUSTRY REMAINS RECESSION-RESISTANT

cutives believed heavy manufactur- was in a recession. And as inflation interest rates crept up and consum- grew more cautious in the second arter, the overall economy seemed to teetering toward one, as well.

But the gulf crisis has heaped even re trouble onto the shoulders of trou- d industries, especially heavy petro- m users, such as airlines. Jet fuel has red to about 92¢ a gallon, up from s than 60¢ earlier this summer. Boost- fares may help pass higher fuel ts onto customers, but it's unclear ether higher fares will stick. No won- some analysts are predicting the big- it losses in airline history for 1990.

Jnease over the economy isn't con- ed to the executive suite. Consumers feeling it, too, much to the distress debt-laden retailers (page 30). here's enormous pressure on the en- retail community," says Bernard F. ennan, chairman of Montgomery Ward & Co. With the holiday selling season fast approaching, most retailers are wary of getting stuck with unsold goods. Says Allan B. Stewart, a senior vice-president at Sears, Roebuck & Co.: "You would be a fool to stick your neck out with inventory now."

NO GUILT? For the companies that stand to gain from the Iraq effect, the economic benefits should help assuage any guilt over profiting from misery. "It may sound like ambulance-chasing," says John D. Hendrick, president of Okuma Machinery Inc., the U. S. unit of Japan's Okuma Machinery Works Ltd., one of the world's largest machine-tool makers. "But any threat to national security causes our industry to pick up."

The crisis would have to be far more perilous for people to stop taking cough medicine or eating cookies. While a company such as Baxter International Inc. will pay more for fuel and plastic resins to make some medical products, its revenue mainstays—bandages, surgical gloves, and intravenous solutions—aren't discretionary purchases for hospitals. And big food producers don't sound worried. "You've got to have those Oreos," says Karl M. von der Heyden, chief financial officer of RJR Nabisco Inc., "especially when times are bad."

But Saddam Hussein has most businesses looking cautious. "It doesn't matter if you're a utility or a chemical company or an auto manufacturer," says E. Kidder Meade, marketing vice-president at Litton Industries Inc.'s Industrial Automation Group, a big supplier of machine equipment to a broad range of companies. "The whole of U. S. industry would be a lot more comfortable if the oil price stabilized, whatever that price is." With Saddam's troops digging in, the Iraq effect is likely to haunt managers for months to come.

By Julia Flynn Siler in Chicago, with bureau reports

RETAILING

JUST WINDOW-SHOPPING: BLOOMINGDALE'S SUFFERED A $3 MILLION LOSS IN JULY

ONLY 85 BROODING DAYS TILL CHRISTMAS

As retailing's big season begins, shoppers are staying away in droves

Most weeknights, the Gap store in Stonestown Galleria, an indoor mall in San Francisco, racks up several thousand dollars in sales. The store usually "does slam-dunk," says sales associate Shawn Freeman, and has 10 to 15 people shopping in it at any one time. But on this Monday night in mid-September, the shop has rung up only $900 in sales, and just two customers are browsing. "We blame it on Kuwait," says Freeman. "The Dow Jones was down. Gas prices went up. People get scared."

With the crucial fall shopping season barely begun, signs are pointing to a far rockier retailing scene than many anticipated. Large children's apparel chains such as Kids R Us are reporting disappointing back-to-school results. Hot performers are cooling off: Same-store sales at The Limited rose only 1% in August from the year before. And discounts are already cropping up. At Saks Fifth Avenue in New York, a massive September clearance offered 70% reductions on aging merchandise with such swank labels as Emanuel Ungaro.

Some of the biggest retailers are headed for more turmoil. Credit analysts have just downgraded Sears, Roebuck & Co. debt, citing tougher competition and higher leverage. For R. H. Macy & Co., Standard & Poor's Corp. maintained its ratings but quietly changed its outlook for the company from stable to negative, because of "continuing operating weakness." Sales for Federated Department Stores and Allied Stores Corp., already in Chapter 11, declined 5% for the quarter ended Aug. 4. The prize division, Bloomingdale's, lost almost $3 million in July.

Not all of the signs are negative. Despite meager gains for J. C. Penney Co. overall, Jimmie Rogers, personnel manager of the company's NorthPark mall store in Dallas, reports "double-digit" sales gains in the past two weeks from the same period a year ago. That comes as no surprise: Texas has one of the stronger regional economies. Other retailers, such as Dayton Hudson Corp. and Wal-Mart Stores Inc., are still showing respectable gains. But it's Day Hudson's discount chains, such as T get Stores, that are doing O. K.: Aug same-store sales for its departm stores were up only 3%. And analy expect that even Wal-Mart's same-st sales gains will slow, to 7% annually

Children's apparel chains had a weak back-to-school season. Hot performers such as The Limited are cooling off

The evidence points to a Christ that could rival last year's in bad n for retailers. Then, it was the impend bankruptcy of Robert Campeau's Fe ated and Allied stores that triggered round of bruising promotions. This y it could be mall-shy, war-jittered sh pers who do the most damage. S Walter Loeb, a retail consultant and a lyst: "You have an increase in prices, and people are getting paid overtime in the soft economy. It's ju very weak environment." Rosal Wells, chief economist for the Nati Retail Federation, figures nominal re sales growth in the fourth quarter be only 4.5%. Investors are already acting: Since Aug. 1, retail stocks average have slid faster than the S dard & Poor's 500-stock index.

MACY'S SALE? To cope, store opera are keeping fewer goods on hand. Fe ated and Allied have chopped invento by about 10%, to $1.35 billion. Ma has $400 million less in inventory tha year ago. It also wants to buy bac chunk of its debt at steep discounts free up cash and reassure jittery in tors and vendors. "Macy's needed s good news because the industry fu mentals are lousy, particularly in Northeast," says Frederick H. Taylo junk-bond analyst at Salomon Brot Inc. And to help finance the buyb Macy's "would be willing to sell u 20% of the company or up to $300 mi in equity," says Myron Ullman, Ma executive vice-president.

Will the cutbacks be enough to s the retailers from unprecedented e ings drops? Kenneth A. Macke, ch man of Dayton Hudson, feels his st are meeting their sales goals. But admits, "I think the whole atmosphe going to be promotional." If those motions get out of hand, plenty of st could suffer.

Even after the current shopping son ends, retailers' uncertainty will p ably continue. The growth in store s this decade has far outstripped po tion growth. And, says Kurt Barna retailing consultant and newsletter lisher, those scarcer shoppers are le ing "that savings are more impo than spending. That spells disaster the retail industry." An exaggera perhaps, but there's no question a sh out is well under way.

By Laura Zinn in New York, with M Shao in San Francisco and bureau re

HIS TERM, THE BUSINESS F THE HIGH COURT IS BUSINESS

veral pending cases have wide applications and 'big-money impact'

n the three days ended Sept. 17, David H. Souter withstood an ensive grilling from a ate Judiciary Committee intent on learning ere he stood on such sive issues as free- of speech, separa- of church and state, abortion. He offered clues about how he uld vote if, as expect- he is confirmed as sident Bush's first ap- intment to the Su- ne Court.

ut the questions erican business most its answered never came up at the ter hearing. Nonetheless, answers to y should be forthcoming in relative- hort order. The Supreme Court dock- hat awaits Souter is dominated pri- ily by economic questions: the rights tates to tax and regulate business, limits of corporate liability, and the er of the federal government to run bled savings and loans (table). "The t has taken a number of cases that e big-money impact," says Charles hfeld, acting chief counsel at the demy for State & Local Government, nprofit advisory group.

the court term that begins on Oct. y far the two most important cases usiness are *United o Workers vs. John- Controls* and *Pacif- Mutual Life Insur- e Co. vs. Haslip.* In *Johnson* case, the ices must decide ther a company vio- l civil rights law by ing women who d become pregnant jobs that would se them to chemi- known to cause defects. Some 20 on industrial jobs, mates one judge, d be ruled off-limits nany female work- if Johnson Controls' y is deemed legal. mpanies are caught Catch-22," says ntin Rigel, deputy

SOUTER: SOCIALLY DIVISIVE ISSUES ARE NOT AWAITING HIM

general counsel of the National Association of Manufacturers. "If they do nothing," he says, "they may be liable for damages down the road, and if they do something, they may be liable for sex discrimination."

Alabama resident Cleopatra Haslip's fight to win health insurance benefits she thought she had paid for is crucial to companies' efforts to ease the burden of fat damage awards by juries. In reviewing her claim, the court is revisiting familiar turf. In a 1989 case involving Browning-Ferris Industries Inc., the justices ruled that huge punitive damages do not violate the Eighth Amendment's prohibition against cruel and unusual punishment. But it invited a challenge to such awards under the 14th Amendment's guarantee of due process.

In *Haslip*, Pacific Mutual Life hopes to overturn a $1 million award against it stemming from the fraudulent acts of one of its agents. The issue of how much discretion juries should have in making such awards is the heart of the case. "This issue affects every business in the country," says Stephen Bokat, general counsel to the U. S. Chamber of Commerce. "It has broader ramifications than *Johnson*."

The nation's biggest financial mess will also get the court's attention. Former Texas banker Thomas M. Gaubert argues that federal regulators ran his Independent American Savings Assn. into the ground after seizing it—and should therefore be held accountable for his lost equity. If Gaubert wins, federal regulators could lose some of their broad immunity from civil suits. Such a ruling "could result in staggering financial losses to the federal government" and would crimp the ongoing S&L cleanup, says Deputy Solicitor General John G. Roberts Jr.

FEWER REWRITES. At a time when the federal government is exhorting the states to take on more of the regulatory work load, the court finds its docket filled with cases on how far Washington can go to limit state action. Two cases deal with whether the Employee Retirement Income Security Act bars state courts from hearing challenges to the federal pension law. On taxes, the court will hear arguments challenging the constitutionality of several state taxes, including a value-added tax in Michigan and Florida's attempt to tax the value of intangibles, in this case, car loans. "Businesses are going to look to the court for protection against expansion of state taxing powers," says Gary B. Born, a Washington corporate lawyer.

While arcane, such cases may soon fill the bulk of the court's calendar. After a decade of Republican judicial appointments, the Supreme Court and the lower federal courts are in general agreement on the most burning issues. This suggests that the court will focus on these more prosaic cases in coming years as the justices shy away from the rewriting of law that was the hallmark of the Warren and Burger courts. "Constitutional law seems to be fairly settled in many areas," says Richard K. Willard, a former Justice Dept. official. "The caseload of the court is going to become less political."

The cases now dominating the Supreme Court's calendar may lack the drama of abortion or the political punch of the flag-burning issue. But the stakes are high, and business, at least, will be paying attention to how the closely divided court resolves them.

By Tim Smart in Washington

BIG BUSINESS CASES BEFORE THE SUPREME COURT

PACIFIC MUTUAL LIFE INSURANCE CO. VS. HASLIP

Does the due process clause of the 14th Amendment limit the freedom of juries to impose huge, punitive damage liability awards?

UNITED AUTO WORKERS VS. JOHNSON CONTROLS INC.

Is it sex discrimination or a legal business judgment for an employer to bar fertile women from jobs that would expose them to lead and other toxins?

U.S. VS. GAUBERT

How much immunity do federal regulators have from liability for alleged negligence stemming from their takeover of a savings-and-loan institution?

JAMES H. BEAM DISTILLING VS. GEORGIA

Is a taxpayer entitled to a refund on state excise taxes paid under a law that was later deemed unconstitutional by the courts?

CARNIVAL CRUISE LINES INC. VS. SHUTE

Can plaintiffs bring lawsuits against companies that have only minimal business interests in the state where the suit is filed?

DATA: BW

SIMON — ABA

Commentary/by Paul Magnusson and Neil Gross

JAPAN'S LATEST END RUN AROUND FREE TRADE

It should have been a marriage made in heaven. A major industrial nation entirely dependent on foreign oil is courted by a company whose high-tech invention could save the country 25 million barrels of oil yearly. But the nation is Japan, and the inventive company, Allied-Signal Inc., is American—and today, the two are hardly speaking.

On Sept. 19, negotiations between the Bush Administration and the Japanese government were stalled. The two sides failed to agree on a formula that would enable Allied-Signal to sell Japanese utilities a new metal alloy that cuts energy losses in electrical transformers by 70%. The utilities say that claims for the alloy aren't proved. Nonetheless, Japanese companies are working on their own version, and, barring an 11th-hour settlement, Allied faces the loss of lucrative markets throughout Asia.

BIG SPENDER. It's the latest chapter in an all-too-familiar story. Rather than rely on a foreign supplier for a high-technology product, the Japanese government and a web of closely tied companies obstruct imports while they race to clone the invention at home. If the past is any guide, in the next chapter, a Japanese company will begin aggressive exports of remarkably similar products to other countries. U. S. negotiators, in turn, will pursue the chimera of utterly free trade, insisting on written rules that Japan will sidestep. And once again, the message should hit home to non-Japanese businesses: When competing on home ground, the Japanese don't hesitate to throw out the rulebook.

The current fight is over Metglas, an alloy of iron, boron, and silicon that's heated to 1,000 degrees Celsius and cooled to room temperature in one one-thousandth of a second. The resulting substance has properties of both metal and glass and is a highly efficient electrical conductor. Allied-Signal spent 15 years and more than $100 million developing the alloy. It's used in the cores of transformers and in the heads of tape recorders and VCRs. The company estimates Metglas' potential world market at $2.5 billion.

Meanwhile, the Japanese government funded a successful five-year, $12 million attempt by Nippon Steel Corp. to come up with its own version of Metglas. It also formed a consortium of 33 companies to study the alloy's commercial applications.

ALLIED-SIGNAL SPENT $100 MILLION DEVELOPING THE ALLOY METGLAS

As Japan Inc. swung into action, the Japanese patent office sat on Allied-Signal's application for 12 years while publishing details of the production process—as is its common practice. And because the clock starts running as soon as the application is filed, the patent granted Metglas in 1984 expires in 1993. At that point, Nippon Steel, which already has 50% of the world market for conventional silicon-steel transformer cores, will be able to market a competing product it developed with the help of a government subsidy.

Where have we heard this story fore? Monsanto Co. was stymied 1985 from entering the Japanese silic wafer market until Japanese produc could catch up. The company sold wafer division, claiming that its failu to crack Japan was a major factor pulling out of the business.

Motorola Inc. was blocked in its tempt to market its palm-size Mi TAC cellular telephone in Japan. Mo rola finally won its bureaucratic fig last summer, but it may be too la Matsushita Electric Ind trial Co. is out with an ev smaller phone. Says John Stern, a vice-president the American Electron Assn. in Tokyo: "Allie case only proves once ag that market access delay is market access denied."

NO QUOTAS. The U. S. m also have muffed a cha to build high-tech tra While the Japanese abl the idea of depending foreign sources for vi technology, they will acc some percentage of impor But U. S. negotiators oft demand written rules to sure a theoretical open m ket rather than bargain a quota, which would least ring up some sal "One is dealing with an sue of principle, and the o er is dealing pragmatica and that's characteristic almost every case," sa Charles Cook, a vice-pr dent of MEMC, which bou Monsanto's Japanese wa business.

At least one American dustry, semiconductors, is pleased w the market quota that the Reagan A ministration negotiated with Japan 1985. It allowed the Americans to sh they can reliably supply a high-qual product at a competitive price. Witho it, they maintain, even their pres toehold in Japan would be impossib

But the Japanese willingness to t numbers has to be matched by a n pragmatism among U. S. negotiato When it comes to selling in Japan, bargainers should leave their Ad Smith ties in the closet.

M PLANT IN PONTIAC, MICH.: MANY AGING WORKERS MAY OPT FOR EARLY RETIREMENT

HE UAW VEERS CLOSER O REALITY

proposed pact with GM recognizes that cutbacks are unavoidable

hroughout the 1980s, the United Auto Workers watched with mounting frustration as General tors Corp. lost market share—and on jobs—to foreign rivals. Union ders tried to limit the damage by de- nding more job security in every new or agreement. But nothing worked. 's product troubles and stiff competi- ı from Japanese plants in the U. S. 'e slashed its sales from 41% of the nestic market to 36% in the past four ırs. Despite extensive job guarantees n in 1987, UAW jobs at GM slid from ,000 three years ago to 310,000 today. 3ut on Sept. 17, when UAW President 'en F. Bieber emerged haggard and ary-eyed after 41 hours of nonstop 'gaining with GM, he offered his mem- 's a contract that rec- ıizes the dismal reali- If GM can't sell cars, union won't have s. The proposed new 'eement does little to vent the No. 1 auto ker from closing re plants and laying the 60,000 additional rkers that many ob- 'vers say it must d. Instead, it guar- ees that individual rkers will emerge m future job cuts h their paychecks tually unscathed for next three years.

GM has paid a steep price for labor peace and the continued right to downsize. The new income protections and generous pay hikes may lift total labor costs by some five percentage points above inflation through 1993. "The company is paying a major up-front premium to buy out workers and downsize the work force," says Scott Merlis, an analyst at Morgan Stanley & Co.

The new agreement continues the trade-off of job guarantees for income security that the UAW has been making for years. Instead of blocking GM from cutting workers, the union won a variety of programs in the 1980s that protect members' pay if they're laid off. These programs will be strengthened (table). Currently, members are protected from layoffs for any reason except a sales slump. To tighten this huge loophole, GM has agreed that workers laid off for more than a total of 36 weeks will go into the company's "job bank."

GM still can eliminate these workers' jobs. But doing so will cost more. And the individual is protected. Members in the bank—whose funding will increase from $1.3 billion to $3.35 billion—get training and full pay until its funds are exhausted. In addition, GM will improve other programs that protect pay before the 36-week limit kicks in.

GM also retains the freedom to close plants. Although the UAW won a ban on closings in 1987, GM still shut four plants and said they were idled indefinitely, not closed permanently. The new deal continues this arrangement, although any laid-off workers will get the added income protections.

UAW members won't like the prospect of further job shrinkage, but they're likely to go along with the proposed deal. GM's shrinkage has raised average seniority at the company to more than 18 years, and as many as 20,000 workers may be eligible for early retirement. Many may take the sweetened retirement package being offered.

CHRISTMAS PRESENT. As an added incentive to ratify the pact, GM is offering a rich package: a 3% wage hike, two 3% lump-sum bonuses in the second and third years, three $600 Christmas bonuses, and continued cost-of-living increases. This adds up to an expensive deal. Base wages will jump 13% by 1993, to $17.88 an hour. Total labor costs probably will climb by about 1.7% a year after inflation, according to a preliminary estimate by Merlis. That's a price that Ford Motor Co. and Chrysler Corp., both of which the UAW will negotiate with next, may not want to pay. Indeed, Chrysler officials already have said that they're too financially strapped to afford what GM has given.

Although the GM pact protects current members' income, it also shows how closely the UAW's fortunes are linked to those of U. S. auto makers. The union's main hope now is to organize workers at the Japanese plants in the U. S. But so far, it has had little success. As a result, the UAW soon may find itself in the same boat as the steelworkers, the rubber workers, and other once-large industrial unions: smaller, with declining power and prestige.

By David Woodruff in Detroit

HOW GM CAN CUT ITS WORK FORCE

Under the proposed new contract, GM will increase its spending on the following programs from $1.3 billion to more than $4 billion:

GUARANTEED INCOME Workers now on layoff with 10 years' seniority will get 95% of pay for three years, up from two

UNEMPLOYMENT BENEFITS Other workers on layoff will get 95% of pay for 18 months, up from 12

IDLED PLANTS Layoff benefits will be applied to 8,000 workers at four plants indefinitely shuttered since 1987

JOB BANK Workers laid off for more than 36 weeks get training or other work and full pay

BUYOUTS Pension, early retirement, and buyout plans will be sweetened as a lure for some 20,000 workers

DATA: UNITED AUTO WORKERS

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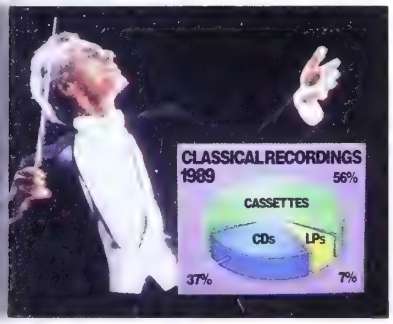

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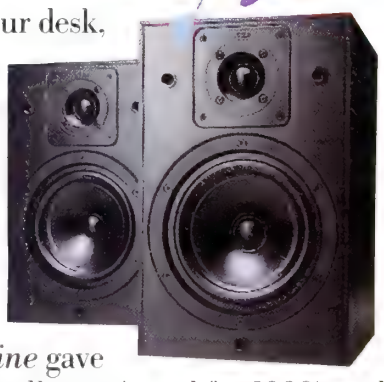

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AIRLINES

CONTINENTAL'S NEW BOSS HAS THE SAME OLD PROBLEM: EMPTY SEATS

Hollis Harris renews the search for the almighty business flier

Hollis L. Harris isn't wasting any time at Continental Airlines Holdings Corp. Since he was named to replace Frank Lorenzo as chief executive in early August, the former Delta Air Lines Inc. president has been buttonholing pilots and flight attendants and quizzing them about their jobs. At the office he's a whirlwind, always quick with an upbeat message. "The potential here is unlimited," he says.

Maybe so. But not without lots of hard work. While Harris is wise to address Continental's battered morale as he climbs into the cockpit, the carrier's problems run much deeper than that. Years of living on the edge with Lorenzo have left an airline with big operating losses, a lousy image, thin management, and enormous debt. With fuel costs soaring and the economy stalling, Harris is in for a rough ride.

On Sept. 18, he got one break. Continental settled a dispute with the federal Pension Benefit Guaranty Corp. over responsibility for the unfunded pension liability of bankrupt Eastern Air Lines Inc. Uncertainty over the scope of the obligation cut off the company's ability to raise capital. Now, the problem is defined. While Continental has agreed to guarantee $600 million in payments, the actual outlay will likely be less than that, for two reasons. First, any recovery the PBGC gets from the Eastern bankruptcy will come off the top of Continental's obligation. Second, Continental's payments will go into a pool that earns interest toward the total. In any event, notes Harris, the payments are long term and manageable. "Now," he says, "we can get down to running an airline."

TOP PRIORITY. Financial flexibility is great, but Continental still fails to attract enough full-fare business travelers. While yields have been inching up lately, they remain 7% below the industry average (chart). That leaves Continental hard-pressed to capitalize on its much-lauded cost advantage over most carriers. The airline recorded a net profit for the first half of this year, but it owes that to one-time gains of $193 million. Without the gains, it would have lost $75 million.

To help revive its image, sources close to the company say Continental is rushing to sever all remaining ties to Eastern. That airline's unsecured creditors are still pressing claims against Continental involving questionable asset transfers between the two airlines before Eastern entered bankruptcy. One source close to the negotiations says Continental would like to settle the claims for about $200 million. But it's also pushing for a quick resolution of the bankruptcy through a liquidation or sale of the airline. Pulling the plug trustee Martin R. Shugrue's fix-it could maximize the PBGC's payout, th by reducing what Continental ov Some creditors say they are fed up v mounting losses at Eastern under S grue. But the committee hasn't reac a consensus on how to act.

Meantime, Harris plans to launc full-court press to bring in more b ness customers. The effort will inclu major marketing initiative: Continent planes will be refurbished inside and painted in new blue and gold color The carrier will also launch a new campaign highlighting the arrival Harris and Continental's revived serv

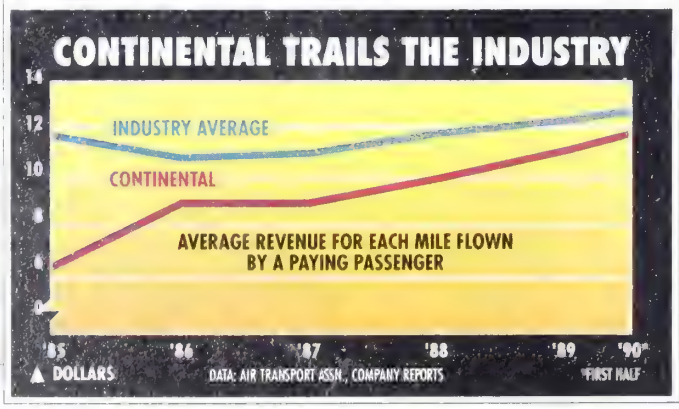
GOOD OL' BOY. Outside the U. S., Ha plans to add more flights in Asia Europe. Both Continental and Scand vian Airline System, which boosted stake in the company to 16.8% whe bought out Lorenzo, are anxious to b on their marketing relationship. though SAS CEO Jan Carlzon was to h been named board chairman of Conti tal, the Transportation Dept. deman that an American fill the position. neapolis investor Carl R. Pohlad took slot. But even so, Continental will li forge the closest ties of U. S. carrier with a for partner.

Still, many industry wa ers are skeptical Harris turn Continental into ano Delta. The airline is condit ed to Lorenzo's crisis-man ment style, and some sou close to the company say ris' slower, good-ol'-boy r ner has already earned the nickname "H-squar among Lorenzo's former tenants. Noting that Lor is still a director, a former executive says: "No one lieves Harris is here to s They keep waiting for F to make the decisions." one director puts the new cy simply: "The board's tion is that the instant ar ecutive shows any sign of knowing who the boss is, should be fired."

For now, Harris is d playing the transition. "F was an entrepreneur took parts and built the line," he says. "I'm more professional airline manag Given the problems Lor bequeathed him, Harris have to be all that—and n

By Mark Ivey in Hou Gail DeGeorge in Miami, Michael Oneal in New Yor

HARRIS: NEW ADS AND REPAINTED PLANES ARE IN THE WORKS



RE BIRD FOR SIKORSKY: THE PENTAGON MAY WANT MORE JAYHAWKS

'LL TAKE MORE THAN SADDAM OR SIKORSKY TO SOAR AGAIN

e company badly needs a hot civilian copter to offset military cuts

nited Technologies Chairman Robert F. Daniell made his name in the early 1980s by turning ınd the company's helicopter unit, Si-ky Aircraft. By the time Daniell be-e CEO in 1986, he had spotted trouble ıd in military spending and had be-pruning United Technologies ɔ.'s reliance on defense and other ernment work from 28% to what ana-s estimate will be 20% next year rt).

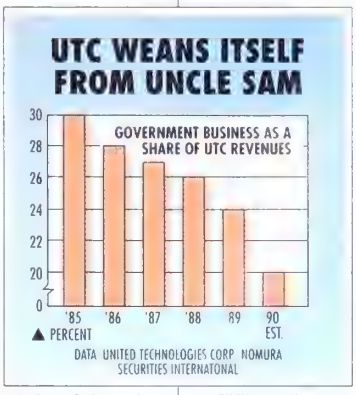
aniell ducked, but he's taking a di- hit anyway. Sikorsky, with $1.8 bil-in sales—85% of them military-relat--faces a bleak future as Washington lies a punishing round of defense . On Sept. 14, the company laid off white-collar workers, bringing pay-reductions to a total of 1,350 since year. Sikorsky trails badly in more nising foreign and commercial mar-, and revenues will probably be ed by 1995, even if a shooting war ıks out in the Middle East. Says k A. Bobbi, an aerospace analyst ı research firm Forecast Internation-ı Newtown, Conn.: "They'll probably ɔme a shell of themselves."

L SANGUINE. Sikorsky President Eu-e Buckley balks at the notion that company will shrink. He says a com-ywide quality program—not defense —brought on the layoffs. And de-e declining defense expenditures, kley sticks to his optimistic forecast: Steady orders from the Coast Guard, Marines, and Navy, he says, will keep revenues from dropping. Short-term, Wall Street agrees. Nomura Securities International Inc. figures Sikorsky will earn about $110 million this year and next on flat revenues.

But Buckley's long-term view is far more sanguine than that of most outside observers. He's counting on a smaller military needing more flexibility in shuttling soldiers around the world. "Cutbacks mean they'll cry out for more helicopters, not less," he says. And Buckley aims to increase revenues through commercial and foreign sales.

But Sikorsky's own numbers for Pentagon chopper outlays don't buttress that case. The company expects bigger orders for only two of eight Sikorsky lines, the S-76 and the Jayhawk, which is used by the Coast Guard. And even then, total shipments in fiscal 1992 will drop 23%.

The worst trouble is in Sikorsky's bread-and-butter program, the Black Hawk, which is basically an airborne jeep. The Army figures that with fewer enlistees, it doesn't need so many Black Hawks. Of course, if a shooting war breaks out and drags on, losses could make demand grow fast despite the chopper's rugged design. But Buckley concedes that future orders could go as low as 36 in fiscal 1992. If so, production will have dropped by almost 67% from current levels, shaving about $400 million from Sikorsky's revenues.



DOWNSCALE DEMAND. That seems to leave few fallbacks. With a long history of fat military orders, Sikorsky has nearly ignored the commercial helicopter market. Buckley even cut the company's commercial marketing staff by half during the past three years. Now, he hopes to increase orders from executives and oil drillers. Yet Sikorsky doesn't seem to have the aircraft they need. Oil-rig operators say the S-76 needs too much maintenance and is too expensive. "We need a pickup truck. The S-76 is more like a sports car," says C. R. "Bob" Palmer, CEO of Rowan Cos., a Houston offshore driller and the third-largest civilian helicopter operator in the country.

For now, the best Sikorsky can hope for is increased foreign military sales. But to win that business, makers such as Sikorsky must forfeit as much as 75% of their revenues to foreign joint-venture partners. And many foreign countries may be hungry for military gear they can't really afford. Turkey, for one, has put out the word that it's in the market for 200 choppers. But it may end up buying as few as 25, says Michel Mandin, market-research director of Aerospatiale's helicopter division, which is bidding against Sikorsky on the contract. "An order of 200 isn't realistic for the Turkish government," says Mandin.

Meanwhile, Sikorsky faces massive development costs for the high-tech Light Helicopter that may never be built. A Boeing-Sikorsky team has ushered the program through five years and $200 million in development costs. But Congress hasn't given the go-ahead for full-scale production. "They might spend a lot on prototypes and then have the program flounder," says consultant and former Defense Dept. air-warfare director Chuck Myers.

What Buckley needs now is a new product to produce fresh profits. Global alliances are shifting rapidly, and the days when the Pentagon had a blank check for swanky military projects such as the Light Helicopter are over. This means Sikorsky's sure-fire prosperity is gone. And that can only make Bob Daniell wish he had ducked a little lower.

By Lisa Driscoll in New Haven, with Martin LaMonica in Paris

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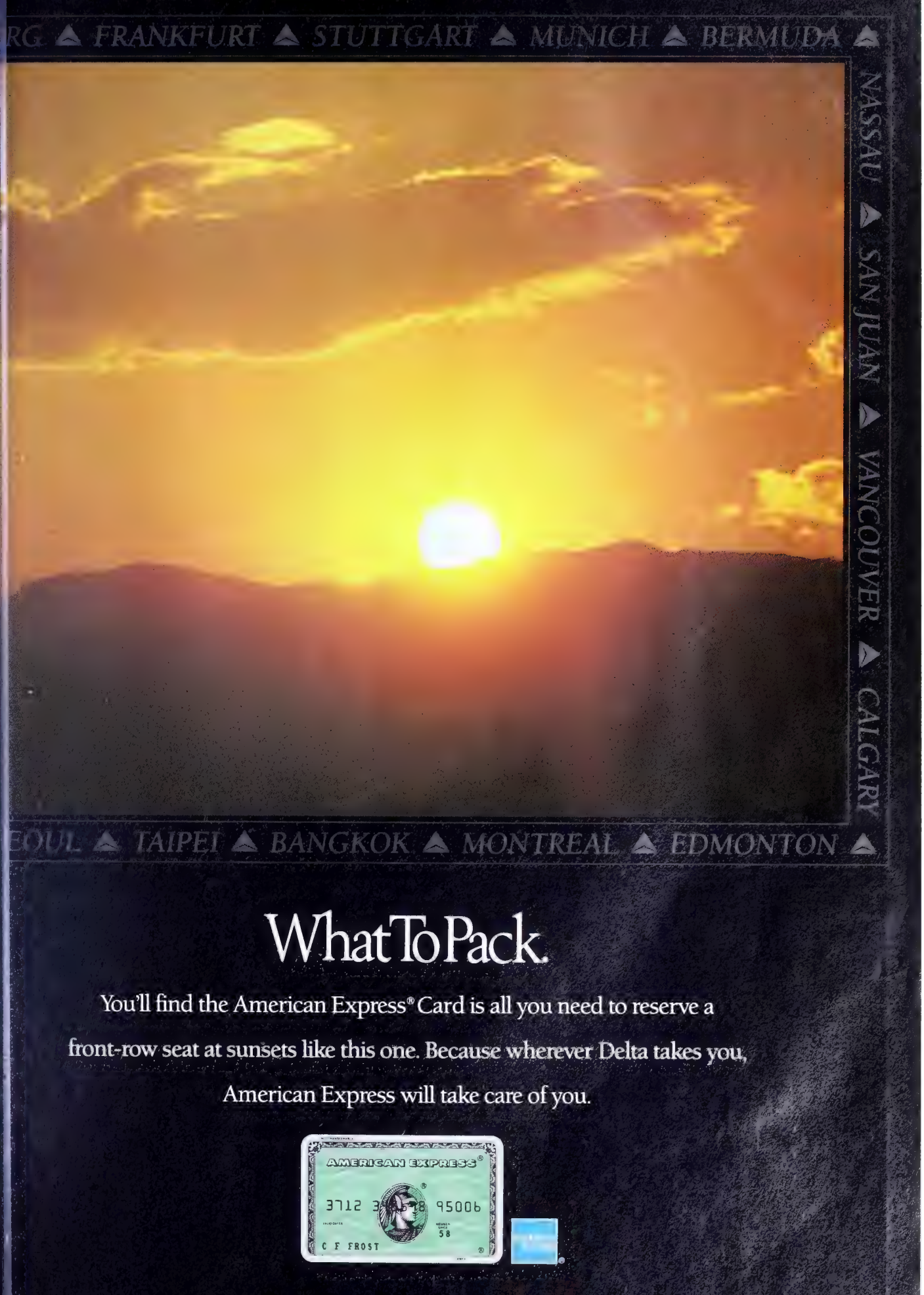
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ENVIRONMENT

IF DON STEDMAN IS RIGHT, THE CLEAN AIR ACT IS ALL WRONG

The controversial chemist is out to prove that tighter rules are a waste

STEDMAN AND HIS SENSOR: ARE 8% OF CARS RESPONSIBLE FOR MOST AUTO POLLUTION?

On a sweltering August day in Chicago, bushy-bearded Professor Donald H. Stedman was camped beside an Eisenhower Expressway entrance ramp, surrounded by a few simple-looking pieces of equipment. As the cars zoomed by, a video camera recorded license plates. At the same time, an instrument at Stedman's feet used an infrared light beam to measure the fumes from each car's tailpipe.

The controversial University of Denver chemist was doing more than just spotting polluters: He was trying to foment a revolution. Even as Congress wraps up a 10-year effort to rewrite the Clean Air Act, Stedman's research is challenging basic assumptions of the law. He believes Congress is about blunder by making emissions standa tougher and encouraging other fu "Modern cars are so clean that tight ing standards or switching fuels is total waste of money," Stedman insis "Individual dirty cars are the proble

'TOTAL CROCK.' Stedman's resea shows that only a tiny fraction of ca perhaps 8%, account for more than h the pollution. What's more, he belie annual emission inspections are ineff tive—and that using alternative fu such as methanol to reduce pollution "a total crock, because methanol can dirtier in new, clean cars than gasolin

Such outspokenness has earned St man the enmity of many regulators a air pollution researchers. Yet his age is serious. Instead of mandating lo emissions for new cars, which could c $5 billion, he believes his remote sens should be used to spot gross pollute Authorities could then send owners tices to have the dirty cars fixed. Th would be no need to ban old cars, some experts suggest, since his stu show most pre-1975 autos are surprisi ly clean. The culprits are cars with b ken or disabled pollution controls those needing tune-ups.

Stedman's approach could reduce pollution in some cities by 30% or m supporters say, and could be chea than many inspection programs. seems like some charlatan talking," s William A. Denham, an Illinois Ene & Natural Resources Dept. econon who has evaluated Stedman's sens But Denham believes a few dozen mote sensors in Chicago could iden enough dirty cars to make a serious d in the city's air pollution problem.

But Stedman has run into strong

ELECTRIC CARS IN CALIFORNIA?

It hasn't been a particularly good year for auto companies. Sales are off, and Congress is considering new standards for fuel economy. Now, California is about to push through the most stringent auto-emissions regulations in the country. The rules are so tough that by 1998, auto companies could be forced to begin selling electric cars.

The state is under pressure from the federal government to clean up Southern California's smoggy air, which fails to meet health standards during two-thirds of the year. So on Sept. 27, the California Air Resources Board is expected to issue regulations that would force auto companies to slash the average emission levels on new cars 36% by 1994 and 81% by the year 2000. The costs, auto companies complain, could run into the billions. "We can't even find enough of the engineers we'll need to do what they're asking," says Michael J. Schwarz, Ford Motor Co.'s manager of emissions-control analysis and planning.

Auto makers, who boast they have cut auto emissions by 97% since 1970, say that slashing pollutants further could take a total engine redesign, new materials, and possibly new fuel.

MAJOR IMPACT. With California's 1.5 million-unit new-car market at stake, the U. S. and Japanese auto companies have been lobbying state officials to tone down the regulations. The carmakers also allied themselves with Big Oil—and asked for delays until th could finish a joint technical stud The refineries needed to make meth nol would cost billions, say the oil co panies, on top of the costs of subsid ing sales of the more expensive fu State regulators dispute the figur saying it would cost less than a pen a gallon in subsidies and less than $2 a car to modify autos with new em sion controls.

No one denies that California's reg lations could have a major impact the rest of the country. Several Nor eastern states have monitored t hearings for months. Like auto-em sion devices, a 1960s gift to the rest the nation, the super-low-emissio cars that get their start in Californ could appear in showrooms across t country before the decade is out.

By Ronald Grover in Los Ange

Which 800 service makes vases vanish?

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— Car and Driver

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tion from state and federal agencies. r biggest criticism is that his conclu- s go beyond his data," says Jerry lagher, manager of auto air pollution rol for Colorado's Health Dept. Gal- ner points out that pollution varies ely depending on whether an engine ld or hot and is accelerating or slow- This makes it hard to estimate total ssions by extrapolating from spot lings of individual cars. Stedman edes the problems, but insists his is far better than standard tests e when the car is idling. Of course, has a financial stake. If the device, ch is being patented by the Universi- f Denver, sells well at the expected e of $20,000 or more a unit, he'd reap ble royalties. The work was funded he National Science Foundation, the ironmental Protection Agency, some es, the American Petroleum Insti- , and Amoco Corp.—but auto mak- have steered clear.

DER TOES. Stedman is stomping on e tender bureaucratic toes. Emis- -inspection programs have become a operation for some states and ga- e operators. But in a 1987 study, lman says, his data showed that cars a Colorado county with no annual ssion inspections were nearly as n as those in a nearby county that ks its cars. "It scared the hell out of t of politicians and made the regula- agency very nervous to the point of ng to discredit Don," recalls consul- Ron Ostop, who was then environ- tal manager for Colorado Springs. ven Stedman's fiercest opponents ede that his device, which uses in- ed light to measure carbon monoxide unburned fuel in the exhaust, does k. And some of his data are star- g. In Washington, D. C., the sensor tted a two-year-old taxicab spewing times more pollution than a typical Its problem: faulty fuel injection. 's been uphill, but more people are ing Stedman seriously. "At this ge, we are impressed by the technol- and its ability to function," says hael Shapiro, a top EPA official who recently briefed by Stedman. "We committed to evaluating it and mak- the best use of it, along with our ting strategies."

ongress isn't about to scrap the d-fought Clean Air legislation on dman's say-so. But after reading a spaper op-ed article by Stedman, presentative Joe Barton (R-Tex.) in- ed a little-noticed amendment in the requiring states to "consider using ote on-road sensors." Score one for Stedman and his quick and dirty to clean up the air.

By John Carey in Washington

CONSUMER ELECTRONICS

MUSIC IS ALREADY GETTING INTO THE SWING OF HDTV

Recording companies film videos in anticipation of the new technology

No one will notice it until the mid-1990s. But when pop jazz vocalist Patti Austin takes to a New York soundstage this fall, she will pioneer a new era in music video. Austin, along with guests Kenny Loggins, the group Take 6, and the Boys Choir of Harlem, will tape the video for high-definition television. For the time being, however, fans won't be able to see these new videos in the richly colored, wide-screen brilliance of HDTV. They'll have to make do with scaled-back versions that can play on today's home videocassette and laser-disk players.

GRP'S ROSEN: STOCKING UP FOR "A TREMENDOUS REVOLUTION"

Why would anyone spend millions making products that U. S. consumers won't even be able to buy for years? Tiny GRP Records Inc. wants a headstart on HDTV technology. It is betting that when Americans start seeing the clarity, color, and special effects possible with HDTV, they'll begin buying TV sets and tape and disk players built around the new format. And they'll need programming that goes with it. "High-definition is going to cause a tremendous revolution in entertainment," says onetime jazz drummer and GRP President Larry Rosen. "It's important for us to have an inventory of masters in place that will be the masters of the future."

'READY TO GO.' Rosen should know. GRP owes its success to a similar gamble on leading-edge technology a decade ago. In the late 1970s, Rosen and co-founder Dave Grusin, an Academy Award-winning composer, were the first nonclassical record producers to start recording everything digitally. They had to convert the digital master tapes back to analog waveforms for vinyl records, at a sacrifice in quality, but they were armed with digital masters when compact disks came along in 1983.

"GRP was ready to go," recalls an executive of Time Warner Inc.'s record subsidiary. "The rest of us were scrambling to remaster everything, taking old analog tapes and trying to boost their quality." Today, GRP, now a subsidiary of entertainment giant MCA Inc., is a $35 million company, and the country's preeminent contemporary jazz label.

Like the shift to CDs, the move to high-definition will start with the upscale consumers who prefer classical and jazz recordings to the rock and rap aimed at fickle teenagers. For one thing, such recordings have a longer shelf life than the fare on MTV. "There's no interest in doing Milli Vanilli in high-definition for 1994," says Barry Rebo, president of New York's Rebo High Definition Studio Inc., the first U. S. production house with high-definition cameras and recorders. "But we've used it as a production medium for short video clips, where it can create spectacular special effects."

That's because producers can use HDTV to superimpose images seamlessly—with no line or halo around the object. That can't be done with conventional video, and it takes weeks, instead of hours, to achieve the same results on film. The capability has already won high-definition video a role in TV commercials for Honda, Sony, Reebok, and Kentucky Fried Chicken, among others, and has enticed filmmakers as a way to pare their special-effects budgets.

But it's music where HDTV seems bound to get its start. Sony Classical will release its first HDTV-mastered videodisk in November, a concert-length recital by American pianist Murray Perahia. Rebo studios has just shot a high-definition series of 26 hour-long music videos in nightclubs, from New Orleans rhythm and blues to Caribbean reggae, to kick off its own music label. And *Patti Austin & Friends* will be in the stores by next spring. And again, in wide-screen, for Christmas 1994.

By Larry Armstrong in Los Angeles

If your company has gotten this complicat

In any complex organization, size can create obstacles. And many firms are using information technology to help get past them.

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In Business This Week

EDITED BY HARRIS COLLINGWOOD

ATHENS CAN'T HOLD A TORCH TO ATLANTA

▶ When it comes to the Olympics, emotion has to take a back seat to infrastructure. The International Olympic Committee on Sept. 18 chose Atlanta as host city for the 1996 summer games. Among the losers: Athens, the sentimental favorite, where the first Olympics of the modern era were held in 1896. The lack of transportation and sports facilities in Athens gave Atlanta the edge.

Atlanta expects to spend at least $1 billion on the games, including more than $350 million on new venues such as a track-and-field stadium. Organizers boast that they'll earn about $150 million. But their projections assume that broadcasters will pay more than ever for rights to the games. After disappointing ratings for the 1988 games, the days of win-at-all-costs network bidding for air rights may be over.

PARING DOWN AT PAN AM

▶ Sent reeling by a sharp jump in jet-fuel prices since Iraq invaded Kuwait, Pan Am is laying off 2,500 employees, or 8.6% of its work force. The embattled airline also plans to return five 747s to General Electric Capital, which holds the leases on the planes.

The moves will generate much-needed cash while furthering a plan to serve the North Atlantic with smaller, more modern planes. The money will also support Pan Am's latest strategy: building up its Miami hub and focusing on Latin American service.

UAL UNIONS CUT THE CORD WITH CONISTON

▶ The employee group seeking financing for its $4.3 billion buyout of UAL terminated its formal alliance with Coniston Partners, the airline holding company's largest shareholder. But the split is more strategy than substance. By dissolving the pact obligating Coniston to support the union-led buyout, United's unions no longer have to inform the SEC of every twist and turn in their negotiations.

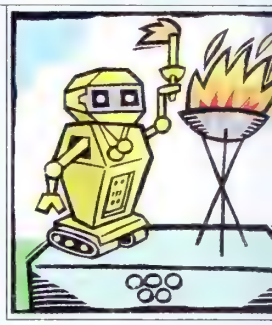
Union advisers hope the ability to operate in secret will help in tough bargaining with banks and prospective equity partners as they seek to beat an Oct. 9 deadline to secure financing. But it has grown increasingly unlikely that the unions can swing a deal at the agreed-upon $201 a share. And UAL's beleaguered board may not be able to stomach a lower price.

PRIME CHECKS IN TO CHAPTER 11

▶ At the start of the year, Prime Motor Inns was the No. 2 hotel franchiser in the U. S. But debt and cash-flow problems forced it to sell off big pieces of chains such as Howard Johnson's and Ramada. When Prime filed for Chapter 11 reorganization on Sept. 17, it was down to its last 136 hotel properties.

In the end, Prime foundered on $110 million in bank debt owed to a group led by Morgan Guaranty Trust. That's down from $328 million at the start of the year. But when Prime asked for a loan extension as well as an extra $25 million, the banks balked. Now, Prime will try to restructure the rest of its obligations and sell a few more assets to improve cash flow.

THEY WON'T USE STEROIDS AT THIS OLYMPICS



The games will begin with the traditional lighting of the flame, followed by a parade through the host city. But there's a twist: The torch will be lit in a Greek restaurant called the Parthenon, the city is Glasgow, Scotland, and the torchbearer is a wheeled robot called Trolleyman.

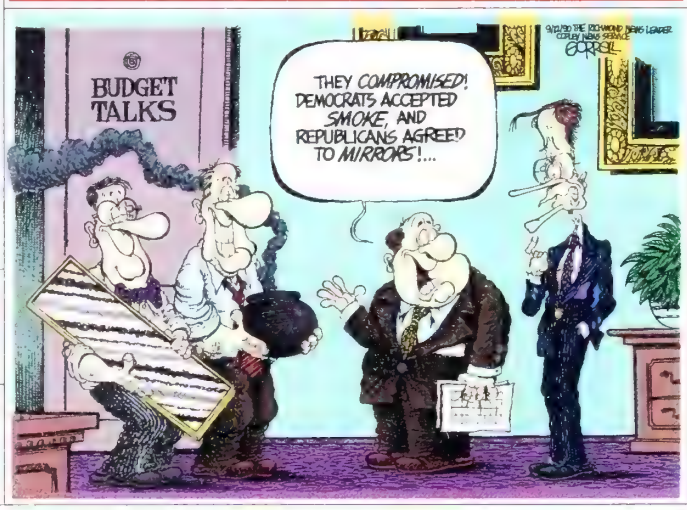
Welcome, sports fans, to the First International Robot Olympics, a late-September track meet that will test the skills of 55 mechanical athletes from countries. It's all part of a robot-technology seminar be hosted by the Turing Institute, a computer-research center

Attila, a six-legged rough-terrain entry from MIT, is favo in the 40-yard dash. The race up a 60-foot smooth wall sho be a close contest between a snake-like robot named Zig-Z and a contestant with four legs and two compressed-air su ers. But the meet's highlight may well be the javelin toss. T star entrant, Wilberforce, is a disembodied prosthetic arm.

CHARLES KEATING IS INDICTED

▶ "He should be forced to clean the floors with a toothbrush alongside Jim Bakker," an elderly woman told a local newscaster. Charles Keating Jr., 66, the former head of American Continental and its Lincoln Savings unit, will get little sympathy from the people of Southern California. On Sept. 18, Keating and th aides were indicted for sec ties fraud and other violati of state law.

Keating is accused of nishing false informat about $250 million in Linc junk bonds sold to 22,000 vestors. The financier, will enter his plea to charges by late Septem failed to make $5 million following the indictment. found guilty on all cou Keating faces a maximum years' imprisonment.



THE FCC'S NEW TACK WITH THE BABY BELL

▶ Ever since the breakup AT&T in 1984, local phone c panies have been governed regulations that limit t profit to a preset level. N all that's about to change. Sept. 19, the Federal Com nications Commission vote abandon earnings limits in vor of caps on the price local phone companies charge long-distance pro ers for connection to t lines. The FCC is betting the new rules, which go effect on Jan. 1, will enc age the locals to tighten t belts because any savi they can find will go dire to the bottom line.

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EDITED BY STEPHEN H. WILDSTROM

OTERS DROP A MESSAGE N THE BALLOT BOX: POLITICIANS, BEWARE

he voters are sending a message to Establishment politicians this year: They're mad as hell and aren't going to take it anymore. In normally placid primaries, most recly in Massachusetts and Oklahoma, voters riled over soartax bills, crime, and corruption are dumping insiders and ing to insurgents who promise to shake things up. The d is ugly, and could get nastier come November.

oters are lashing out with equal frustration at Democrats Republicans. On Sept. 18, Massachusetts Democrats chose outspoken outsider, Boston University President John R. er, to run for governor, while denying a bevy of incums renomination. During his cam- n, Silber seemed to go out of his to offend such core Democratic stituencies as blacks and the elderly. a surge of support from blue-collar ocrats and independents won him nomination. Bay State Republicans turned their backs on a veteran slative leader to pick former U. S. rney William F. Weld, another pol neophyte, to oppose Silber.

klahoma voters vented similar an- Democrats nominated businessman id Walters for governor, rejecting a n-term congressman's bid. Voters approved a first-in-the-nation constitutional amendment ing state legislators' service to 12 years. Similar proposals e wide support in California and Colorado.

MASSACHUSETTS DEMOCRATIC NOMINEE SILBER

TAL CONCERN. Anti-politicians are also doing well in Texas Louisiana. Texas rancher Clayton Williams, in his first bid office, holds a commanding lead over Democratic State surer Ann Richards in the race for the statehouse. And in siana, former Ku Klux Klansman David R. Duke, who has disowned by the GOP, seems likely to force Democratic tor J. Bennett Johnston into a runoff.

ven pols in the nation's capital are feeling the heat. Dis- of Columbia Democrats, repulsed by the scandals surrounding three-term Mayor Marion S. Barry, nominated former utility company executive Sharon Pratt Dixon to succeed him. Dixon campaigned on a promise to ax 2,000 political appointees from the city payroll.

Why the backlash? With the economy softening, voters are worried about the future and are fed up with rising taxes and declining services. A new poll by Times Mirror Co. found the public increasingly turning away from both parties because they associate "Republicans with wealth and greed, Democrats with fecklessness and incompetence."

So far, the revolt hasn't spread to Congress. Only one House incumbent lost a primary—and he had been convicted on a morals charge involving a teenage girl. Few House members, and fewer senators, faced serious primary opposition.

Still, party officials are starting to get nervous. The savings and loan fiasco has voters irate, and there's enough blame to go around to imperil both Democrats and Republicans. Already, such veteran lawmakers as Representatives Frank Annunzio (D-Ill.), Doug Barnard Jr. (D-Ga.), and Denny Smith (R-Ore.) are catching S&L hell. Other incumbents are in trouble over hiking congressional pay and accepting special-interest money. "There's a growing anti-incumbency mood we can all sense," says John B. Breaux (D-La.), chairman of the Democratic Senatorial Campaign Committee.

The last great public uprising, the tax revolt of the 1970s, led directly to the Reagan revolution. So far, this year's discontent hasn't focused on an issue or a leader. But there's a movement out there waiting to be led. "People are thoroughly disgusted," says University of Virginia political scientist Larry Sabato. "They want to throw the bums out." And that makes pols of all stripes break out in a cold sweat.

By Howard Gleckman, Paula Dwyer, and Douglas A. Harbrecht

ITAL WRAPUP

ALTH CARE

he nation's battered system for providing health care to the poor y be about to get a major overhaul. e Advisory Council on Social Securi- & Medicare will issue a report next rch on how to fix medicaid. While members of the government panel agree about many key issues, they 've reached a consensus that the curt division of responsibility between tes and the federal government isn't rking and that Washington should e over. The council is likely to recmend uniform national eligibility benefit standards, with the feds ncing the whole program. Members may also call for an expansion of coverage to include young children and pregnant women who currently earn a bit too much to qualify for benefits.

TAXES

Broadcasters' long free ride on the nation's airwaves may almost be over. With Congress greedily eyeing every dollar of potential tax revenue, the National Association of Broadcasters and other lobbyists are growing gloomy about their chances of stopping the Bush Administration's proposed 5% levy on the gross revenues of commercial radio and televison stations. The fee would raise an estimated $10 billion over the next five years.

LEGISLATURES

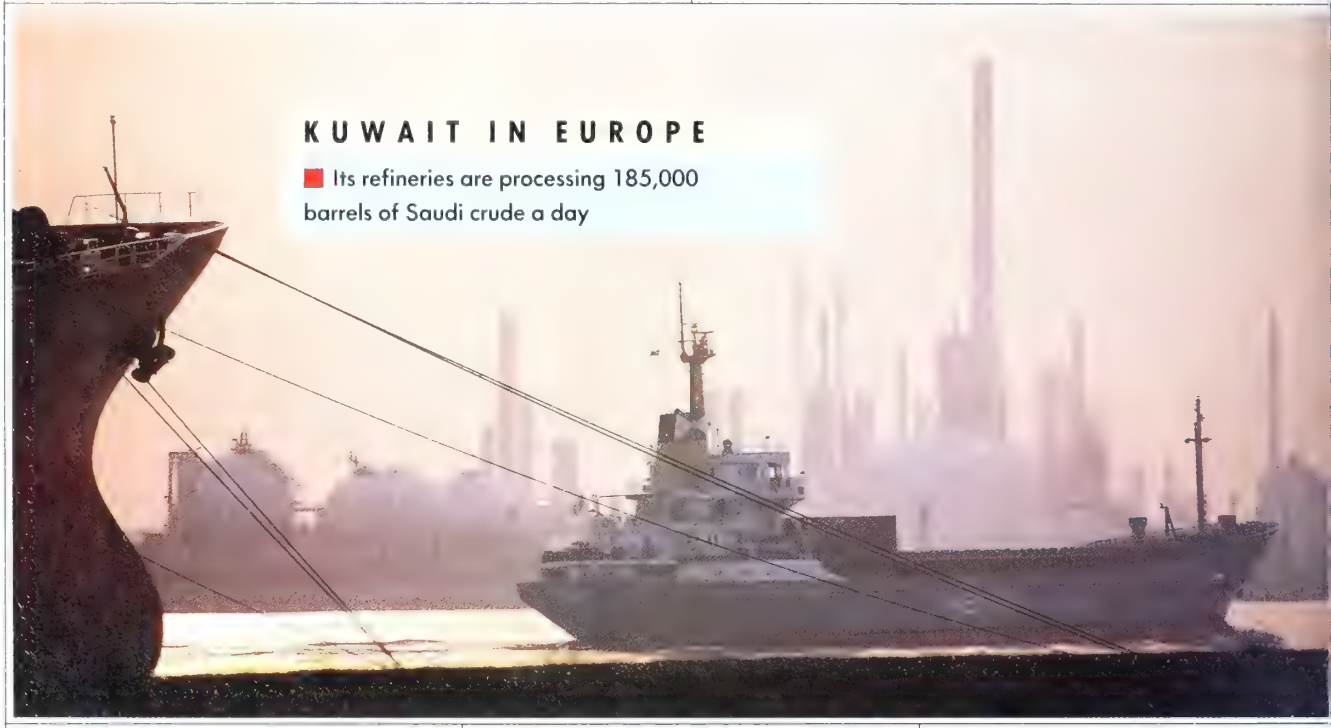
State legislative races rarely merit national attention. But Republicans are making a quiet push at the state level that could have national implications. The GOP thinks it has a chance to win control of the Pennsylvania House and is fighting to hold the Senates in New York and Michigan. The White House will send Cabinet Secretaries into the states to campaign for Republican candidates. All three states will lose seats in the upcoming congressional reapportionment. GOP leaders hope that gains in the legislature will help them minimize the damage when new district lines are drawn.

KUWAIT PUTS ITS $100 BILLION WAR CHEST TO WORK

Paying for Desert Shield and reestablishing banks makes raising cash imperative

A few months ago, the annual meeting of the International Monetary Fund and World Bank was shaping up to be a love-fest. With the Soviet Union attending as an observer for the first time, the ministers and central bankers who would gather in Washington on Sept. 24 planned to praise Eastern Europe's move to democracy and help finance its reconstruction. Then, in August, Iraq suddenly invaded Kuwait.

As oil prices have soared above $30, stock markets are tumbling, the dollar is crumbling, and recession is loom in the U. S. To the cost of restarting Eastern Europe, n add billions to pay for the U. S.-led effort to contain Ira and more to aid developing countries hit by high oil. In t turbulent atmosphere, BUSINESS WEEK examines two lead issues in global finance: How Kuwaitis in exile are man ing their $100 billion financial empire, and how Europe creating a central bank and single currency.



KUWAIT IN EUROPE

■ Its refineries are processing 185,000 barrels of Saudi crude a day

In the baboon-infested Jebel Rigaf mountains high above the dry Tihama plains of western Saudi Arabia, a heavily guarded luxury hotel houses the core of Kuwait's exiled government. But of the dozens of rooms and suites occupied by the Kuwaitis, a tiny fifth-floor chamber is the most important. Here is the nerve center for the world's largest pool of stateless money, and it is from this unlikely command center in Taif's Sheraton Hotel that Kuwait's government in exile keeps watch over roughly $100 billion in overseas assets.

In that small room, trusted operators sitting at a bank of clattering telex machines receive policy instructions from the grand master of Kuwait's money, Finance Minister Ali Khalifa al-Sabah. They then quickly dispatch them to key aides working in an unmarked, gray concrete building near London's St. Paul's Cathedral. Long the base of operations for the country's biggest investment arm, the Kuwait Investment Office (KIO), this edifice now is the government's front line in its effort to keep its financial empire whole.

So far, the empire still stands. But ever since Iraqi troops stormed across the border on Aug. 2, the world of Kuwait's secretive moneymen has be turned upside down.

For decades, as much as 10% of K wait's oil income went straight into t coffers of the KIO and its sister, the K wait Investment Authority (KIA). Plu ing into the world equity and real est markets, the Kuwaitis amassed hu stakes in the U. S., Europe, and As bagging nearly 10% of British Petrole Co. and taking giant-size bites out Germany Inc. (table).

ON HOLD. Now, cut off from their us flow of petrodollars, Kuwait's financi are slamming the brakes on their b investment strategies. What's more, support the Kuwaiti diaspora and h

nce the Persian Gulf military effort inst Iraq, they suddenly find themes forced to dig deeply into assets amassed as insurance against the their 92 billion-barrel oil reserves out sometime in the next century. s Fouad K. Jaffar, an adviser to the and its former general manager: ree months ago, we were looking at gations [to support Kuwait's budget] o 40 years ahead. Those obligations coming due now."

he increasingly tight control over vait's wealth by an inner e of exiled government isters—almost all mems of the ruling al-Sabah ily—raises troubling stions. A political settlet that reduces or even udes a role for the al-Sas in a new Kuwait could ılt in a fierce struggle for keys to the strongbox. for now, the al-Sabahs behaving as if their claim management of state is will remain unquesed. In fact, they are quiraising cash to meet a inting pile of bills.

ı the first 48 hours after Iraqi invasion, the KIO ed hundreds of millions selling shares in West many and Switzerland be- an international freeze Kuwaiti and Iraqi assets porarily put a halt to the on. But with international ncial regulators allowing Kuwaitis nearly unfetd access to assets again, selling is likely to ıme.

ASSURANCES. The Kutis may have lost $6 bilon paper in the global k-market drop that foled the invasion. Now, dful of the further chaos KIO could cause if it went a wild selling spree, the waitis are moving ginger- According to one welled Western source, Ali alifa and his aides have tioned such big institutions as J. P. rgan, Morgan Stanley, Bankers ıst, and Citicorp that " 'we don't want see our managers selling unnecessari- They want to reassure the market." ce Kuwait now has an estimated $8 ion to $10 billion in cash on hand, ıtral Bank Governor Salem Abdulaziz Sabah insists "we're just not interestin liquidating. We don't think we need tra] funds for the coming year."

So anxious were the Kuwaitis to calm rkets that in the days following the invasion, the country's ruler, Emir Jaber al-Ahmad al-Sabah, sent messages to numerous heads of state pledging business would go on as usual. Ali Khalifa, meanwhile, jetted to London, Frankfurt, and Tokyo to calm jittery investors, and then moved on to Madrid to reassure King Juan Carlos of Spain, where Kuwait owns Grupo Torras, the country's largest industrial conglomerate.

Still, the Kuwaitis' need for more income is growing greater every day Iraq remains in control of their homeland. Kuwait still earns perhaps $6 billion a year from stocks, bonds, bank deposits, and real estate. It is getting an additional $950 million from oil production in the Neutral Zone, a territory it shares with Saudi Arabia, and is earning an undetermined additional sum by refining 185,000 barrels of Saudi crude a day in its European refineries. But it is still likely that the exiled government's obligations will exceed its current income, especially if the Iraqi occupation stretches into 1991.

The Kuwaitis have already promised to pay $5 billion toward Operation Desert Shield and the foreign-aid package pieced together by Secretary of State James A. Baker III. They are spending $100 million a month to care for 250,000 Kuwaiti refugees and finance a resistance movement inside their homeland. They have put up an estimated $500 million to $700 million to help reestablish Kuwaiti banks. And even if the ruling al-Sabah family returns home soon, the Kuwaitis will face even more spending to rebuild their devastated nation.

Fortunately, say well-informed bankers, the Kuwaitis were in top-notch financial shape when the Persian Gulf boiled over. In keeping with their reputation for buying cheap and selling near the top, the KIO and KIA late last year began shifting into high-quality bonds and blue-chip stocks. Then, last June, still smarting from a British government order in 1988 to slash Kuwait's 21.6% stake in BP by more than half, Ali Khalifa moved over from the Oil Ministry to Finance. He quickly bolstered a growing sense of conservatism in Kuwaiti investment circles that saw the KIO and its affiliates dump massive amounts of stocks—perhaps $6 billion in the U. S. alone—earlier this year.

'UNTOUCHABLE.' By the time of the invasion, say senior Kuwaiti officials and bankers, some 40% of the nation's $100 billion was in cash, triple-A-rated corporate bonds, and U. S. and West German government debt. Such conservatism probably is here to stay, at least until Kuwait's status becomes clear. The geographical breakdown of assets—40% in North America, 35% in Europe, and the remainder in Japan, Southeast Asia, and Australia—is unlikely to change anytime soon. And Ali Khalifa vows that Kuwait's big interests in such European blue chips as Daimler-Benz, Metallgesellschaft, and Hoechst are "untouchable."

To underscore the message that nobody's panicking, the KIO is even buying here and there. On Sept. 12, for example, the office invested $11.4 million in shares of Houston's Great Western Resources Inc., an oil and coal exploration group already 29.8% owned by Kuwait. Indeed, saying "we have not disappeared," one Kuwaiti source says he still thinks there are bargains in U. S. oil-

KUWAIT'S GLOBAL EMPIRE

Company	Industry	Percent owned	Value Billions of dollars
U. S.			
SANTA FE INTERNATIONAL	Oil, drilling	100.0%	$2.5
GREAT WESTERN RESOURCES	Oil	29.8	0.1
OCCIDENTAL GEOTHERMAL	Power generation	100.0	0.4
PHOENICIAN HOTEL	Hotel	45.0	NA
ATLANTA HILTON	Hotel	100.0	NA
EUROPE			
KUWAIT PETROLEUM	Refining	100.0	NA
BRITISH PETROLEUM	Oil	9.8	3.6
MIDLAND BANK	Banking	10.5	0.4
HOGG ROBINSON	Travel	11.0	NA
TRUSTHOUSE FORTE	Travel	3.2	0.1
ST. MARTIN'S PROPERTY	Real estate	100.0	1.5
HOECHST	Chemicals	25.0	2.2
DAIMLER-BENZ	Autos	14.0	3.0
METALLGESELLSCHAFT	Engineering	15.0	0.4
TORRAS	Conglomerate	73.0	3.0
ASIA			
ARABIAN OIL	Refining	10.3	0.4
SIME DARBY	Manufacturing	5.4	0.1
OUB CENTRE	Real estate	33.0	NA
DAO HENG HOLDING	Banking	37.0	NA
OTHER			
U.S. STOCKS AND BONDS			20.0
JAPANESE STOCKS AND BONDS			20.0
BANK DEPOSITS, FOREIGN CURRENCIES, GOLD			24.0

NA = not available

DATA: *MORGAN STANLEY CAPITAL INTERNATIONAL PERSPECTIVE*, BW

AN INTERVIEW WITH KUWAIT'S ALI KHALIFA AL-SABAH

The steady management of Kuwait's overseas assets is mostly due to the efforts of Ali Khalifa al-Sabah, the 45-year-old Finance Minister. Named to his current job last June after a 12-year stint running Kuwait's oil industry, Ali Khalifa has crisscrossed the globe over the past month to reassure foreign governments and financial institutions that Kuwait would remain a responsible player in world markets. At his new base in Taif, Saudi Arabia, Ali Khalifa talked to BUSINESS WEEK Mideast correspondent John Rossant.

Q How much will Kuwait have to spend to support refugees, the allied military effort, the banks, and foreign aid? Can you do it on income alone?

A Altogether, it's not too far away from $5 billion for both [military plus foreign aid] components, and that is until the end of this year. Possibly, we'll have to draw down some cash. I don't think income will be sufficient.

Q How do you see interest rates?

A Perhaps they have peaked. And perhaps it's time to go back in the [stock] market, as low as it is. But again, on a selected basis. I don't mean we will be telling [the Kuwait Investment Office] to buy X or sell Y. We'll be more selective, and when we think there is value to be obtained, we'll tell them: Go for it.

Q What will you do about your big strategic positions?

A We don't intend to do anything about them. They are untouchable.

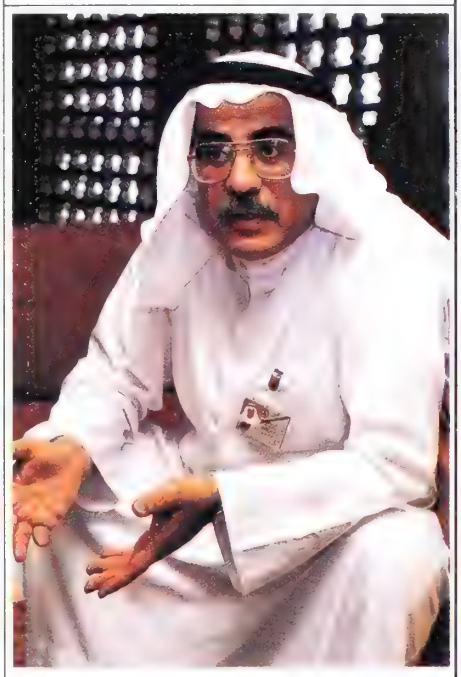
Q You and other prominent Kuwaitis have already said that you will have enormous claims against Iraq after a withdrawal. What's going to happen to those claims if Saddam Hussein is overthrown?

A We do have a lot of claims. It's incredible to see what the Iraqis are doing these days. Even traffic lights have been taken from the streets. Of course, we cannot give up on all these claims, even if Saddam is overthrown. But we have to consider that against having a long-term security arrangement.

Q It's not very clear who Saddam could be replaced with.

A It will have to be somebody from outside the country. The [Baathist] regime will have to be purged to the end.

Q Will there be political liberalization in Kuwait after liberation and the restoration of your family? Many Kuwaitis are calling for this.



"It's incredible to see what the Iraqis are doing. Even traffic lights have been taken from the streets"

A You have to realize that during the first period [after a restoration], security inside Kuwait will have to be given top priority. Essentially, our country has not only been occupied and destroyed, but, also, a large number of Iraqi [civilians] have moved into Kuwait, and some segments of the populations of non-Kuwaitis have collaborated. Whatever we do, at least during the first few months, we're going to be more strict.

service issues and in stocks and bonds Germany and Japan.

Still, no one is saying whether the K waitis are actually playing these hun es. Overwhelmingly, the overriding wo is caution. "Our advice is stay liqui says Abdullah al-Gabandi, chairman Kuwait Foreign Trading, Contracting Investment Co., a government-controll money management group. "Don't g into long-term investments."

That cautious mood is percolati through Kuwait's holdings. While t KIO says it will complete a previous announced plan to restructure its Spa ish holdings, it is also making it cle that it isn't averse to selling stocks even if it doesn't need more cash rig now. On Sept. 13, the KIO unloaded 21.5% stake in British insurer Dew Warren Holdings PLC, worth $15 milli One London source expects that ov the next year, the Kuwaitis will sell ev more in Britain, where they have mo than $5 billion invested.

While the general trading strategy coming from Taif instead of Kuwait C these days, it is being carried out, always, from the KIO's London base. the frantic, panicky days after the in sion, senior finance officials, nearly of whom were away from Kuwait business or vacation, gravitated the Amid pounding hammers and jangli phones, such key executives as K Chairman Fahad al-Sabah and Depu Chairman Khaled al-Sabah make th way around jerry-built cubicles as th and a clique of 15 or 20 others try reconstruct lost records, keep in tou with bankers, and press regulato around the world to get the funds Kuwaiti-controlled companies unfroze

HEDGING BETS. In addition to its inve ment responsibilities, the London off is signing off on individual requests financial aid passed along by Kuw embassies around the world. But in t ing to aid displaced citizens and soli reestablish their banks and their inve ment affairs offshore, the Kuwai ever the swift-moving market mave are clearly hedging their bets. If th return home, at least they won't have rebuild an entire financial system fr scratch. And if they are doomed to p manent exile, at least they have tak the money with them.

Whether the Kuwaitis can hold on the bulk of their assets through a p tracted Iraqi occupation is the $100 lion question. But for now, they are t ing as hard as they can to prevent th money from vanishing as easily as th homeland.

By John Rossant in Taif, Saudi Ara Richard A. Melcher in London, and W liam Glasgall in New York

VILL THE FRANC, THE LIRA, AND THE POUND ECOME COLLECTOR'S ITEMS?

ırope is moving toward a common currency and a central bank modeled on the U.S. Fed

FADING AWAY?

■ Gaps still separate European economies, but monetary union is well under way

When financial wheeler-dealers order dinner at the luxurious La Gaichel restaurant in Luxembourg, menu prices are given not in Luxem- rg francs but in European Currency ts, the European Community's offi- unit of account. "It's more for the ıet of being European than anything ," says Francis G. Michelet, a regu- customer and senior vice-president of cutive search firm Carré, Orban & tners International.

ou probably won't find many other aurants in Europe following La Gai- 's example. But in the rarefied lds of European finance, industry, politics, the ECU is more than an ctation. As adoption of its ambitious ı for free trade in 1992 draws closer, EC is moving forcefully to adopt a le currency and a central bank mod- on the U. S. Federal Reserve Board. all goes according to plan, Europe 0 years could be the home not only he world's largest financial market also of a Eurofed and a supercur- y rivaling the Federal Reserve and ar in global influence. Says Karl Otto l, president of West Germany's Bundesbank: "I don't know when [economic and monetary union will be completed], but it's already under way."

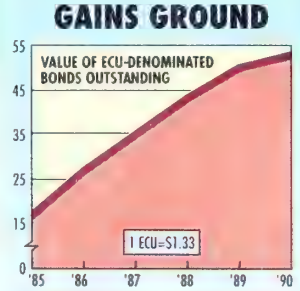
The EC's central bank governors have been meeting regularly for six months at Basel's Bank for International Settlements to begin writing the rules for a Eurofed. Their work will be ready by November, to be used as a blueprint for the next month's Eurosummit in Rome. As envisioned by the central bankers, the Eurofed would be a powerful, independent institution that would formulate monetary policy for the 12 EC countries and eventually issue a single currency.

Britain's resistance is the biggest hurdle to European monetary union. While the British pound is one of the components used to set the value of the ECU, Britain has so far steadfastly refused to join the Exchange Rate Mechanism of the European Monetary System. Prime Minister Thatcher believes joining immediately would be risky, with oil prices jolting her already unstable economy. Next year, however, as British elections approach, the gesture of solidarity toward the EC and the lowering of interest rates that would have to accompany ERM membership will both look much more desirable.

PICKING UP SPEED. With an eye to compromise, British Chancellor of the Exchequer John Major has proposed creating a "hard ECU." Instead of a composite, the hard ECU would be a currency in its own right, with notes and coins. It could never be devalued because a European Monetary Fund would keep its value constant by adjusting interest rates and intervening in currency markets. Over time, the hard ECU would be accepted as a common currency and displace Europe's national monies.

The hard ECU idea is gaining advocates among smaller countries such as Spain, Portugal, and Greece. Beset by budget deficits, they can't afford the fiscal and monetary discipline required by a quick jump to full monetary integration. More surprising, even Bundesbank President Pöhl, who had initially

THE ECU GAINS GROUND



DATA: SALOMON BROTHERS INC., BW ESTIMATE

PHOTOGRAPH BY BRAMAZ/JERRICAN, CHART BY ERIC HOFFMANN, BW ILLUSTRATION BY RAY VELLA/BW

rejected the hard ECU plan, is now half sold on at least a version of it. But, unlike the British, Pöhl doesn't want the ECU to become a 13th currency, and he rejects the British idea of creating a European Monetary Fund that would issue it. If there is going to be full-fledged monetary union, Pöhl wants a full-fledged European central bank.

The success of a hard ECU, of course, assumes that banks and corporations will buy the ECU in any form. And they are. Within Europe's increasingly unified market, financings and trade in ECUs are registering impressive growth. Spain, France, Italy, and other governments are starting to raise large amounts of debt in ECUs. The new issues, ranging in size from 500 million to 1.5 billion ECUs—$650 million to nearly $2 billion—are 10 to 15 times larger than anything issued so far.

POWERFUL DRAW. Expanding the ECU's role even further will be the key to making monetary union fly. In government bonds, that may not be hard at all. Europe's total public debt already is worth $2.9 trillion, only a trifle less than Washington's $3 trillion. But it's denominated in a welter of local currencies. When full monetary union takes place, Europe will need to redenominate its bonds in ECUs. Those bonds, plus ones forthcoming from the European Bank for Reconstruction & Development—the mammoth new bank that will finance Eastern Europe's revival—could make Europe's bond market "substantially bigger than the U. S. Treasury market," says Salomon Brothers Inc. European analyst Graham P. Bishop.

The next logical step, business people believe, is ECU billing. Saving money on currency transactions is a powerful incentive to adopt a single money. Already, 60% of total EC trade is intra-EC and 70% is intra-Europe. Open borders after 1992 will raise those levels. Ultimately, running Germany on Deutschemarks and Spain on pesetas will make as little sense as having New York and California use different currencies.

Senior executives at Philips headquarters in the Netherlands estimate that Philips could save $300 million a year in currency transactions with the ECU. "We would be so much better off with a single currency in Europe," says Daniel Lebègue, president of Banque Nationale de Paris, France's largest commercial bank.

Fiat Chairman Giovanni Agnelli has provided the most startling example to date of Ecuphoria. Last January, Fiat announced a joint venture with the Soviet Automobile Ministry to produce 300,000 cars a year in the Soviet Union. The agreement stipulates that the new company will operate within a "currency enclave" in which all transactions are denominated in ECUs.

The financial industry, motivated by EC deregulation in 1992 and the need to expand across borders for self-protection, is creating the unified financial market necessary to make a single currency work. Smaller banks are merging within national borders to protect their home turfs. The wealthiest banks are engaging in frenetic expansion across the EC. Deutsche Bank's 1986 acquisition of Banca d'America e d'Italia, for $603 million, gave the German giant a 99-branch operation across Italy. It h been an astounding success.

That momentum is what makes mo tary union inevitable. The EC could te down its economic boundaries withou Eurofed or a Eurocurrency. But as E rope's economies align themselves mo closely, national money is destined to come irrelevant at best and a handic at worst.

By Blanca Riemer in Paris, Richard Melcher in London, and John Templem in Bonn, with Patrick Oster in Brus and bureau reports

AN INTERVIEW WITH KARL OTTO POHL

Bundesbank President Karl Otto Pohl may be the busiest central banker in the industrialized world, juggling the economic integration of Europe, German reunification, and the impact of higher oil prices. BUSINESS WEEK Bonn Bureau Chief John Templeman and European Economics Correspondent Blanca Riemer spoke with Pohl in Frankfurt on Sept. 13 about those challenges.

Q Do you believe that European economic and monetary union will happen, and if so, when?

A It remains to be seen whether European governments are prepared to transfer sovereign rights, in particular in monetary policy, to a supranational community institution. That is the subject of the intergovernmental conference that will start in Rome in December.

A CURRENCY "AS GOOD AS THE D-MARK"

Q You seem more skeptical about monetary union than you were only two months ago.

A I have not changed my position. We could live with the existing system, and we also have some sympathy for the competition between currency policies. But if it is the firm political will of governments to establish a common institution and to create a single currency, then this currency has to be at least as good as the D-mark, and the institution has to be at least as efficient as the Bundesbank.

Q How much do you think that the reunification of Germany will cos

A If you talk about the cost of unific tion, you also have to talk about th benefits of unification. I am convince that the benefits will be very muc higher than the costs.

Q But debt financing is a problem.

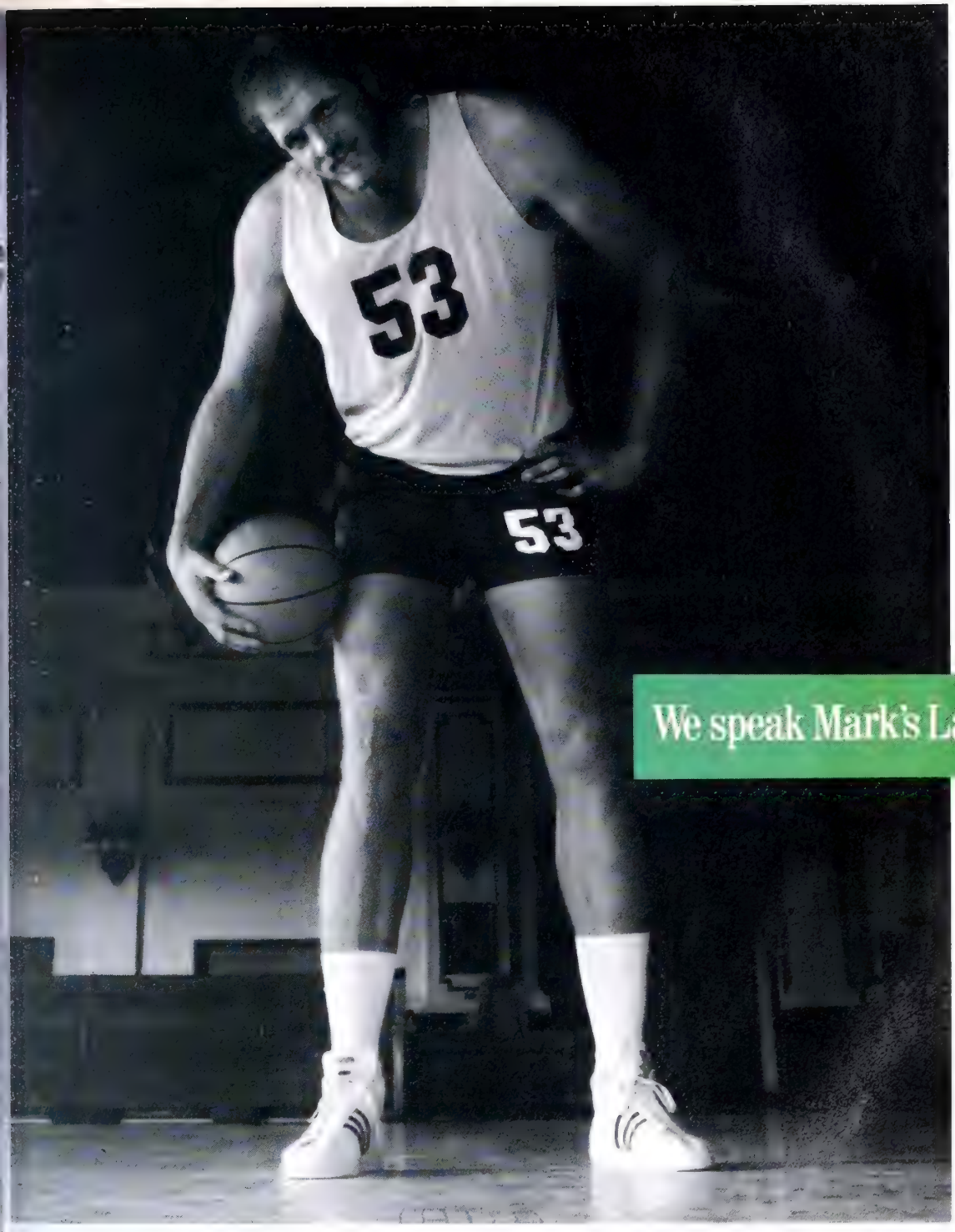
A In real terms, we will see a substa tial decline in the Germa current account and trad surplus. Which is good. is good for our partners. is good for Germany b cause it means that a su stantial part of the add tional demand coming fro the unification can be sat fied by imports. That taking place. As far as th financial side is concerne the whole public sector bo rowed less than 1% of GI last year. So there is roo for additional borrowin But there are limits.

Q What would be the be monetary policy respon to higher oil prices and inflation?

A On the assumption that oil prices c be consolidated between, let's say, $ and $30 and that exchange rates rema more or less at the level they are no then in the case of Germany, there no reason to dramatize. There is a c tain increase in inflation, but it is ma ageable.

Q Should the U. S. cut interest rates

A I leave that to Alan Greenspan a his wisdom.



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EDITED BY JOHN PEARS

ARE THE GULF STATES READY FOR A NATO OF THEIR OWN?

If President Bush succeeds in driving Saddam Hussein out of Kuwait, either by economic pressure or military force, the Iraqi dictator's expulsion won't end the need for a major U. S. military commitment in the Persian Gulf. To keep Iraq in check and deter other potential aggressors, such as Iran, Secretary of State James A. Baker III and military planners are talking up proposals for a new gulf alliance. It might group Saudi Arabia and other gulf kingdoms with regional powers that have taken an anti-Saddam stand, such as Egypt, Syria, and Turkey. Such an alliance would at least minimize the need to keep U. S. forces in the gulf long after the current crisis.

Some prospective allies are nervous, however. Arab observers say a security pact that includes a large contingent of U. S. troops would give political ammunition to Saddam. "The whole argument of Saddam Hussein is that the wealthy oil countries have sold themselves and the Arab fortune to the West," says Salama Ahmed Salama, an Egyptian political analyst. "If America tries to impose a political security order, then it will seem that Saddam was right."

EGYPTIAN TROOPS IN SAUDI ARABIA

'TRIPWIRE.' That's why the Bush Administration, to avoid stationing large numbers of U. S. troops in the gulf for years, will have to find other forces willing to stay there. William B. Quandt, a Middle East expert at the Brookings Institution, thinks a U. N. peacekeeping force in Kuwait could serve as a "tripwire to signal international determination" to keep Kuwait independent. But a larger combat force, he says, will have to stay on in Saudi Arabia because its 75,000-man armed forces aren't a big enough deterrent.

The likeliest countries to provide those troops would be Egypt and Syria, which have already sent forces to Saudi Arabia. But both are already sensitive to accusations that they are serving as mercenaries and tools of the West. Large economic-aid programs for these poor countries, financed by the gulf monarchies, may help overcome their warine

Still, several thousand Americans are likely to be needed Saudi Arabia for years to train Saudi forces and maintain t vast arsenal that the U. S. is shipping there. Much of t matériel is likely to stay for use by the Saudi military—or U. S. forces if they need to return. While the continued Ame can presence will be a sore point, there is also a growi realization among some Arab thinkers that it may be a nec sary evil. Saddam Hussein was tempted to invade Kuw because he knew the existing gulf defenses were flimsy, sa Ali Dessouki, a Cairo University politi scientist.

HIGH COST. The price tag for strengthe ing gulf security will be enormous. I yond the cost of stationing an inter tional force indefinitely, the two ma Moslem military powers near the regi Egypt and Turkey, are likely to exp substantial new U. S. military aid. Isra while keeping a low profile in the cris nevertheless has joined the queue U. S. debt forgiveness and more milita help (BW—Sept. 24).

The Saudis have the deepest pocke however. They've already agreed to shell out a record billion for a U. S. arms package. The U. S. will also dun sm er gulf states for big bucks. All will have plenty of fun thanks to the doubling of oil prices and boosts in output.

The greatest danger may be that strategists in the U. S. a the gulf will assume that regional security only requires h ing enough weapons and foreign troops on hand—and mor to pay for them. But the current crisis will almost certai deepen growing political resentments against the gulf m archs' autocratic rule. Sooner or later, they are likely to fa new threats, from their neighbors or their own subjects, they fail to modernize their regimes.

By Stanley Reed in New York, with Amy Borrus in Washing and Marilyn Achiron in Cairo

GLOBAL WRAPUP

EUROPE

The central institution of post-cold-war Europe, a permanent Conference on Security & Cooperation in Europe, will start taking shape at a meeting of 35 foreign ministers in New York on Oct. 1-2. The ministers, including representatives of the U. S. and Canada, will make plans for the creation of a CSCE secretariat and a conflict-resolution agency at a summit to be held in Paris on Nov. 19. The merger of two German states into one would reduce CSCE membership to 34, but Albania, Europe's lone holdout, now says it, too, wants to join.

For the Bush Administration, the New York meeting, the CSCE's first in the U. S., strengthens transatlantic ties with an increasingly united Europe. But before the Paris meeting, the two cold war alliances, NATO and the Warsaw Pact, must wrap up a treaty to cut nonnuclear forces in Europe. Because of the pact's near-collapse and Soviet troop withdrawals from Germany, the treaty's goals are being revised.

SOUTH AFRICA

President F. W. de Klerk is taking tough measures, from curfews to ringing squatter camps with razor wire, to curb violence that has killed 800 people in six weeks. The move follows a call by Nelson Mandela, deputy president of the African National Co gress, for action by Pretoria to end th strife. But Mandela slammed the go ernment's plan to give machine guns police, some of whom have been a cused of supporting attacks again ANC members by followers of Zu Chief Mangosuthu Buthelesi's Inkath movement. Witnesses also accu white death squads of killing blacks.

De Klerk will visit President Bush late September and could also lobb the International Monetary Fund mee ing for renewed IMF lending to Pr toria. He argues that financing shou start now for the rebuilding of a po apartheid South Africa, but the v lence is dimming that prospect.

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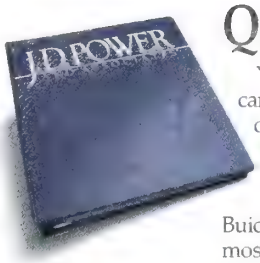

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2. J.D. Power and Associates 1990 Vehicle Dependability In Based on things gone wrong to 4- to 5-year-old 1985 mo vehicles in the past 12 months.

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5. 1990 Cutlass Supreme 29 mpg EPA estimated highway mileage.

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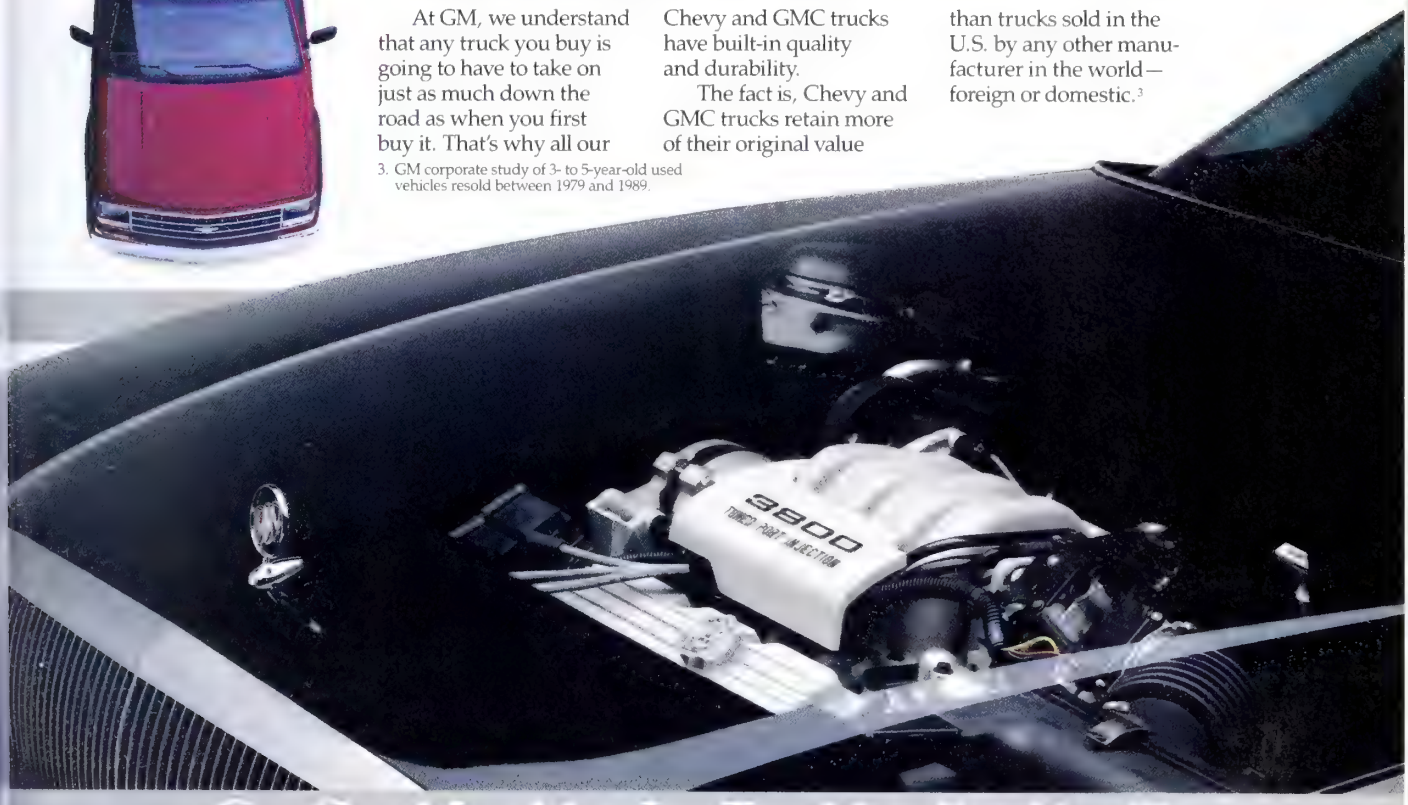
3. GM corporate study of 3- to 5-year-old used vehicles resold between 1979 and 1989.



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BIOTECH'S SHARPEST SHOOTERS HAVE A POWERFUL NEW WEAPON

Gene targeting may let them draw a bead on hereditary disease or create drug-producing animals

The mouse looks normal, until it moves. Stumbling and lurching, the creature can wander only in a cockeyed circle. Part of its brain is missing, but the culprit isn't a random birth defect, or even experimental surgery. This mouse, born in the lab of University of Utah researcher Mario Capecchi, resulted from a remarkable genetic manipulation that may hold the key to understanding and curing numerous human maladies.

Using a new technique called gene targeting, Capecchi reached into a single cell and switched off a gene that researchers suspected played a role in a mouse's development. The eventual offspring of that maneuver—the mice that lacked the gene—pinpointed its function: It helps form the brain.

PATCHWORK. Insights such as this, published in August in the scientific journal *Nature*, are emerging with increasing frequency. First demonstrated in April by Rudolf Jaenisch at the Whitehead Institute in Cambridge, Mass., gene targeting promises to be a major advance from the previous practice of inserting genes randomly in the double helix that forms an animal's genetic code. Now, for the first time, researchers can insert a gene in exactly the right spot. That lets them turn genes on or off, or correct faulty DNA. It's akin to writing a "patch" to substitute for faulty or inadequate computer code in a piece of software.

The technique for achieving this extraordinary precision is still dauntingly complex and tediously inefficient, but its potential is stunning. Already, the ability to instill new characteristics into mice by manipulating a single cell has given scientists the wherewithal to study the role of specific genes in mammals. It could also boost existing efforts to engineer desirable characteristics into animals or turn them into miniature manufacturing plants for a variety of products, from infant formula to transplantable cells (table). Moreover, most scientists are convinced that if the research progresses at its current clip, targeting will play a key role in gene therapy, the controversial process of slipping new DNA into humans to cure genetic diseases.

In an experiment on Sept. 14, National Institutes of Health researchers inserted a gene into a 4-year-old girl in an attempt to provide a missing enzyme and cure her of ADA deficiency. Also called "bubble-boy" syndrome, it's a rare condition in which children are born incapable of fighting disease. But many researchers believe the NIH test represents just a crude first step in gene therapy. Genes that randomly insert themselves in DNA do work, but controlling them is difficult. Precisely targeted genes should work better because they are surrou ed by key genetic segments that swit them on and off—telling them to p duce a hormone, for instance, or n Several obstacles may delay the use gene targeting in humans for yea Still, "this is the first time in a deca I've looked at a technology and sa 'This is the next wave,'" says M. Ka leen Behrens, a biotech watcher and ve ture capitalist with Robertson, Stephe & Co. in San Francisco.

Already, one startup has raised $8 n lion to exclusive pursue gene targ ing. "It's fundame tally different fr conventional te niques," says S phen A. Sherw former director clinical research Genentech Inc. a now the chief exe tive of one-year-o Cell Genesys Inc. Foster City, Cal Genentech and oth biotechnology co panies are focusi on using gene-spl ing to make drug Sherwin's goal, contrast, is to crea so-called "univers donor cells." T theory is that ge targeting will ma it possible to kno out the character tics that identify o person's cells as foreign to anothe body. Then, skin or blood cells, for ample, could be grown in a lab a transplanted without rejection to he treat human diseases. Macular degen ation, for example, is an eye ailme characterized by damaged retinal cel Cell Genesys is hoping to create don retinal cells that could be injected treat the malady.

Gene targeting could also dramatica expand the usefulness of animals us in research called "transgenics," whi carry foreign genes that give them no

GENE TARGETING'S BROAD RANGE OF USES

Gene targeting (homologous recombination) is a method for putting genes where scientists want them in an animal's DNA. It could be used for:

ANIMAL TESTING By selectively knocking out, replacing, or turning on genes, the technology will create thousands of living laboratories in which to study genetics

DRUG PRODUCTION By making selective changes in an animal's immune system, gene targeting could turn animals into manufacturing facilities for human drugs or even nutritional protein products. One experiment aims to get cows to give "infant formula"

NEW ANIMALS Scientists could someday improve livestock by making pigs with lower cholesterol, cows with more lean meat, or animals that are resistant to disease

DONOR CELLS By modifying a donor's cells to remove characteristics that someone else's body recognizes as foreign, researchers may be able to create so called 'universal donor cells'

GENE THERAPY Although far from practical now, this technique could be used to treat genetic illnesses

DATA: BW

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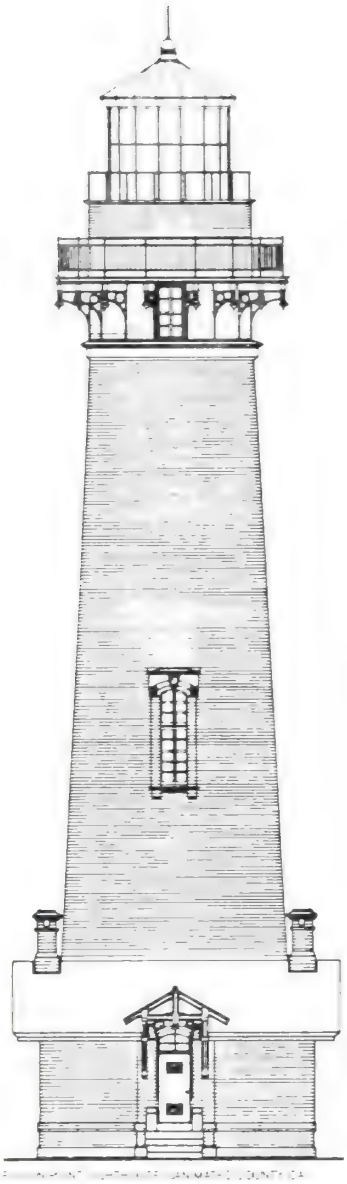

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traits. At least a dozen companies are developing transgenic animals, and Market Research Intelligence Corp. estimates that by 1998, sales of these animals and their byproducts could hit $1.5 billion. Du Pont Co., for example, already is selling a transgenic mouse that is unusually susceptible to breast cancer. Until now, the tools used to insert DNA in these animals have been imprecise: Scientists were limited to adding a new or improved function, such as making extra growth hormone. But gene targeting will let them alter animals in many other ways.

Scientists took the initial steps toward gene targeting more than a decade ago, when they began to precisely integrate DNA in yeast. But they were unable to do that in mammals until the late 1980s, when researchers began focusing on a naturally occurring targeting process called "homologous recombination." It happens most often in mammals at conception, when sperm meets egg: Chromosomes from each parent exchange genetic information at the right spots. That's why you can have your mother's eyes and your father's ears.

Jaenisch, Capecchi, and a handful of other scientists proved that homologous recombination takes place outside of sperm and egg as well, in so-called somatic, or nonsex cells such as blood or skin cells. The trouble is that it happens very rarely—so rarely that "people di[d]n't take it seriously," says Capecchi.

DESIRED MUTATION. But Capecchi came up with a way to orchestrate the rare event: He mixes a doctored gene with a mouse's "embryonic stem cell"—a cell that can be manipulated in a lab dish yet retains its ability to grow into a mouse fetus. The new gene has been given instructions that send it to the right spot in a cell's DNA, so that homologous recombination can take place. It also has biochemical tags tacked on that indicate if it has been incorporated precisely.

Perfect integrations of the gene into the DNA of embryonic stem cells are still rare. But once these cells are isolated, scientists can grow more of them. They then insert the cells into a developing mouse embryo, and implant that in a surrogate mother mouse. The entire process takes six months, but after two generations, researchers have a strain mice that carries in every cell the sired mutation, such as the genetic fl that created Capecchi's wobbly mous

Now, GenPharm International Mountain View, Calif., has licensed pecchi's technology to try to make m with "humanized" immune systems th can manufacture antibodies for treati human disease. And by next year, t company hopes to sell a new strain laboratory mice with certain missing i mune functions for use in testing pos ble carcinogens. Meanwhile, GenPha scientists are working with farm anim in Europe. One key project, still seve years from completion, is aimed at cre ing cows that would produce an infa formula that is more like human milk containing certain proteins that help p vent infections, for example.

SHERWIN: REENGINEERING RETINAL CELLS TO TREAT EYE DISEA

The next leap will be to treat gene diseases by altering the genes in hum cells to correct for defects, and then p ting these cells in the body—a prosp most experts say is years away. For thing, scientists haven't yet isolated c that will replicate in the body o they're altered. If the technology can harnessed, however, gene targeting take gene therapy "from Kitty Hawk space explorer," says Thomas D. Pale a genetic researcher at the University Michigan.

What science has achieved so far is too shabby. At the least, the ability create thousands of living labs in wh to test newly discovered genes and th functions will help uncover many m teries of the human body.

By Joan O'C. Hamilton in San Franci with John Carey in Washington and omi Freundlich in New York.

EXECUTIVE MATERIAL

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Toronado

The New Generation of Oldsmobile

Developments to Watch

ITED BY ROBERT BUDERI

DRILLER'S NIGHTMARE AY BE A DREAM ENERGY SOURCE

Oil and natural gas drillers have long feared a snowball-like mass of water and hydrocarbons called clathrate hydrate. This "ice," which forms at temperatures above the freezing point of water, can jam valves that stop the upward flow of gas—allowing the gas to rush up a bore hole and explode.

But this slushy villain is also an abundant energy rce. The natural-gas stores captured in hydrate ice deposits the sea floor and in the Arctic could hold twice the energy the world's current fossil-fuel stores, says Dendy Sloan, a fessor at the Colorado School of Mines (CSM). The hydrates parently form when organic matter decays, releasing meth- gas. The methane is then trapped in "cages" of water lecules created under low temperatures and high pressures. an says a typical hydrate snowball packs a volume of ural gas 170 times greater than the solid crystal itself. He l other CSM researchers are developing ways to recover the safely. But commercial recovery is at least a decade away.

ON YOU CAN PUT THAT PICTURE F GRANNY ON A DIGITAL DISK

At Eastman Kodak Co.'s annual shareholders' meeting in May, William F. Fowble, head of the Photographic Prod- s Group, talked of a new "hybrid strategy" that would rry conventional film with electronics technology and as- e future growth for Kodak's bread-and-butter film prod- s. This hybrid strategy crystalized in mid-September, when dak unveiled a system that will enable film processors to vert color photos to digital images and store them on CD- videodisks. The digitized images will have virtually the ne resolution as fine-grain film—four times as many pixels, dots, as any high-definition TV system now in the works. You won't need to buy a new TV to use Kodak's picture cs. But current laser disk players can't handle such compli- ed images. So Kodak will offer special players, built by lips of the Netherlands, that should sell for about $500. lips will also license the technology to other makers of eodisk and compact-disk players. In 1992, when Kodak ex- ts its technology to hit the market, digitizing a roll of film cost about $20.

URNING OFF CYSTIC FIBROSIS ITH THE SWITCH OF A GENE

When scientists discovered the cystic fibrosis (CF) gene last year, they hoped one day to cure the fatal disease replacing the defective DNA with the correct gene. Now, research teams are much closer to that goal. In lab dishes, y have been able to add the good gene to cells taken from victims, transforming the cells from sick to healthy.

n one experiment, James Wilson and Francis S. Collins of University of Michigan performed gene therapy on pancreatic cells. In CF patients, who usually die by age 26, these cells fail to produce enzymes needed to digest food. But when the scientists used a virus to carry in the correct gene, the cells began to perform normally. In another study, Michael J. Welsh of the University of Iowa and Alan E. Smith of Genzyme Corp. in Cambridge, Mass., got similar results with cells lining the body's air passages. And when they added a copy of the defective gene to the "cured" cells, the cells became "sick" again. Before treating actual patients, the scientists must show they can get the gene into the right cells in the body with no serious side effects. But the new results indicate that once these details are solved, the approach should work.

THIS INSULIN DOESN'T TAKE EFFECT UNTIL YOU NEED IT

Many drugs, such as cold capsules, work best when released steadily into the bloodstream over a period of hours. But others—including hormones and vaccines—would work better if they were pumped out in bursts. Now, chemist Robert S. Langer, of the Massachusetts Institute of Technology, has devised a way to provide this pumping action.

Diabetics most need an insulin pulse after meals, when blood glucose levels are high. But that means several shots a day. To avoid this, Langer encases a solid form of insulin inside a polymer shell—along with an enzyme that breaks glucose down into an acid. As glucose levels rise, so does the amount of acid. This, in turn, makes the insulin more soluble—and the drug diffuses into the bloodstream. The technology works in diabetic dogs. And Enzytech Inc. in Cambridge, Mass., which has licensed it, expects human tests in two years.

In vaccines—say, for measles or hepatitis—Langer's technology eliminates the need for booster shots. He encases the vaccine in liposomes coated with an enzyme. The enzyme chews through the liposomes, releasing their contents. By varying the amount of enzyme, scientists can program liposomes to release vaccines at intervals of days or months. MIT was recently granted three patents on the vaccines.

WHY PRESSURE CHAMBERS KEEP PACKING 'EM IN

Michael Jackson has one, and now hundreds of hospitals do, too. Hyperbaric chambers, introduced in the 1950s to treat scuba divers with the bends, have reached the medical mainstream. They're now used on everything from cuts to gangrene to smoke and gas poisoning.

Patients rest in the sealed chambers, and oxygen is pumped in until the pressure is two or three times sea level. The pressure shrinks embolisms, like the life-threatening nitrogen bubbles that cause the bends. And the added oxygen can reduce swelling and spur the healing of wounds, says Dr. Roy Myers, of the University of Maryland. Myers says 70,000 people have received the treatment since 1985. Medicare now covers its use for some 13 conditions. Jackson, who had hyperbaric therapy after being burned while filming a Pepsi commercial in 1984, may hope it will keep him young. But so far, that use isn't covered by medicare.

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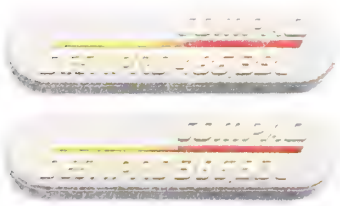

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SUDDENLY, THE STYLISH MALE GETS DISCOVERED

Clothiers and publishers are betting millions that men are ready to shop till they drop for fashion

If Fred Astaire had opened a clothing store, it might have looked a lot like New York's Bergdorf Goodman Men. Designed around a colonnaded two-story rotunda, the posh new Fifth Avenue shop features men's apparel arranged in dark-hued, wood-paneled boutiques. Customers can dine in a cafe, shop by appointment, or practice their short game on an indoor putting green.

This $20 million temple to men's fashion underscores Bergdorf's avid pursuit of the marketing world's latest discovery: the stylish male. Clothiers are sprucing up their men's lines, and publishers are flooding newsstands with men's magazines to help guide these clotheshorses through the growing fashion thicket.

Optimists say they have found a "new man," one who will spend time and money fussing over his wardrobe. But skeptics say such customers are few and far between. The old saw has it that men will shop till they drop for cars and liquor—and little else.

The debate is more than academic: In a torpid retail and publishing environment, companies are betting millions. Sales of men's clothing are flat or even down slightly this year after years of growing at an annual rate of 6% to 8%. And the magazine business is scarcely better: Publishers are retrenching rather than launching new titles as ad-revenue growth slows.

Still, men's marketers insist they are not swimming upstream: "There's a very commercial reason for all the activity," says Leo Scullin, the publisher of *Men's Life*, one of four men's magazines created or repositioned this year (table). "Men have long been ignored as a market." Typically, the male shopper has been perceived as a procrustean consumer whose idea of flair is pinstripes on his charcoal suit.

Terry McDonell, who founded *Smart* magazine in 1988 and became editor-in-chief of *Esquire* last month, argues tha the proliferation of media has expose men to other styles and cultures, ma ing them more sophisticated consumer "The men's market is not only wider bu deeper than it was perceived a few yea ago," he says. And Bergdorf Chairma Ira Neimark predicts that men will sho more interest in modish clothing onc they are exposed to it.

Men do seem to be shopping more fo themselves and favo ing a more stylish loo J. C. Penney Co. es mates that by 1993, 70 of men's apparel pu chases will be made b men vs. 55% this yea To catch that wav Penney's has booste its budget for adverti ing and special prom tions aimed at me And it has spent $ million to build sport wear boutiques in 5 of its stores. "The ta get market is bab boomers," says Car Edwards, manager men's merchandisin relations at Penney's.

Much of the new t terest can be traced plain old demographic The Census Bure says the number of m between the ages of and 49 will grow to million by 1995—a 5 increase over 198 These maturing ba boomers are just sta ing to earn incomes th make them attractive upscale retailers a publishers. Both Ha marx Corp., the Chi go suit manufactur and Brooks Brothe are scrambling to u date their styles more of their custome pass up traditional ba gy cuts in favor of E

REQUIRED READING FOR THE NEW MAN?

MAJOR NEW OR REPOSITIONED MEN'S MAGAZINES

Magazine/Publisher	Editorial focus
Details/Condé Nast	Hip style for men aged 18 to 34
M Inc./Fairchild	Hybrid coverage of business and style
Men's Life/Murdoch	One-stop reading for men aged 30 to 49
Smart: for Men/ New American	For affluent men aged 28 to 40; merger of *Smart* and *Men*

DATA: BW, COMPANY REPORTS

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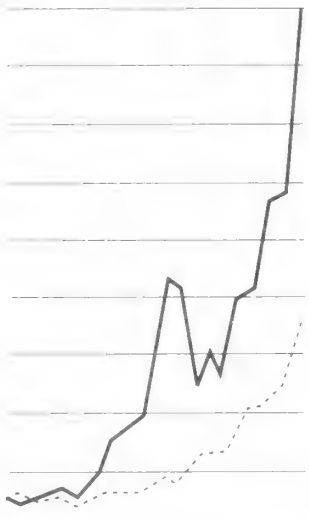

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--- Total return on the Standard & Poor's 500 Composite Index, with dividends reinvested.

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ropean looks by designers such as menegildo Zegna and Hugo Boss.

The men's market hasn't been negle ed completely, of course. For years, m keters have filled sports programs w TV commercials that appeal to male va ty ("The Best a Man Can Get," for lette razors) or celebrate their hale lowship ("Here's to Good Friends," Lowenbrau beer). But Scullin and oth say that addressing men as beer-dri ing sports junkies ignores import changes in their attitudes. Men are re dering their priorities, says Scul swapping the materialism of the '80s a more pragmatic lifestyle. *Men's L* offers stories about famous men (D Quayle), service features (how to us wok), and musings on male identity.

SHIBBOLETH? But other experts th the "new man" is more a market shibboleth than an authentic soc change. An annual survey of Ameri values and attitudes by market resear er Yankelovich Clancy Shulman i cates that men have been remarka consistent in how they perceive the selves. Says Susan Hayward, a ser

By 1995, the number of me between the ages of 30 and will grow to 41 million —a 51% increase over 198

vice-president at Yankelovich: "Ev year, we look for a change, but it sim isn't there."

McDonell of *Esquire* points to san's Zen-like advertising campaign its Infiniti luxury-car division as an ample of more sophisticated market to men. But slow sales forced Nissar switch from pictures of sway pussywillows to shots of sleek cars w zing down country roads.

Still, marketing experts give the ventures some chance of success. F DuCharme, head of print media at G Advertising, says he's recommend some of the magazines to his clients. we offer men alternatives, they mi take them," he says. And despite weak retail market, many analysts th Bergdorf's store will be a success.

But just in case all this talk of new man gives real-life men the wil marketers aren't hesitating to tap some tried-and-true male sentime Tucked among its features on the turing man, *Men's Life* offers a ph essay that asks: "Are bikinis getting small?" The verdict? Take a wild gu

By Mark Landler in New Y

Industry Professionals Rate Document Imaging Companies

1990 AIIM/Datapro Survey

	FileNet	IBM	Kodak	Wang
Overall Satisfaction	1	6	2	9
Software Features/Functions	1	12	6	2
Storage Media (Systems)	1	9	4	7
Expansion Capabilities w/o Conv.	1	4	8	5
Documentation	1	7	3	2
Image Quality/Resolution	1	11	2	4
Capture/Retrieval	2	11	3	6
Customization Capabilities	2	10	8	4
Input/Output Devices Supported	2	8	3	5
System Security/Recovery Features	2	3	6	4
Ease of Use	3	13	4	
Service/S				

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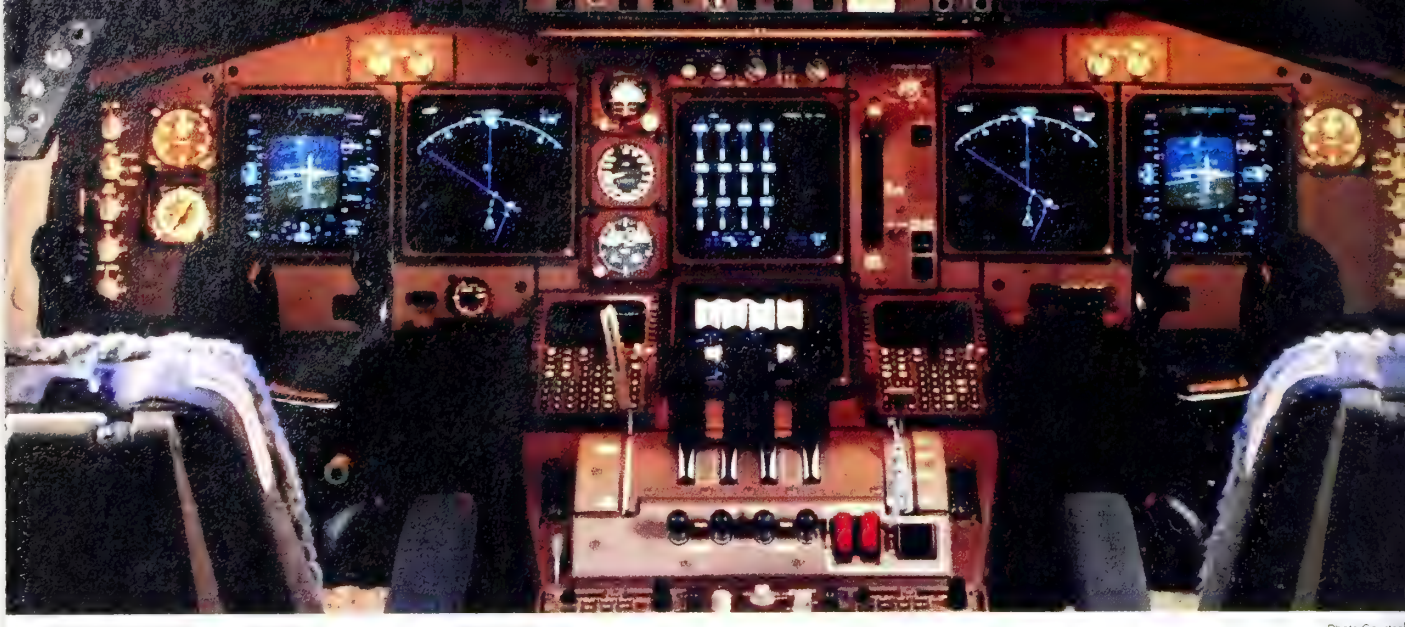

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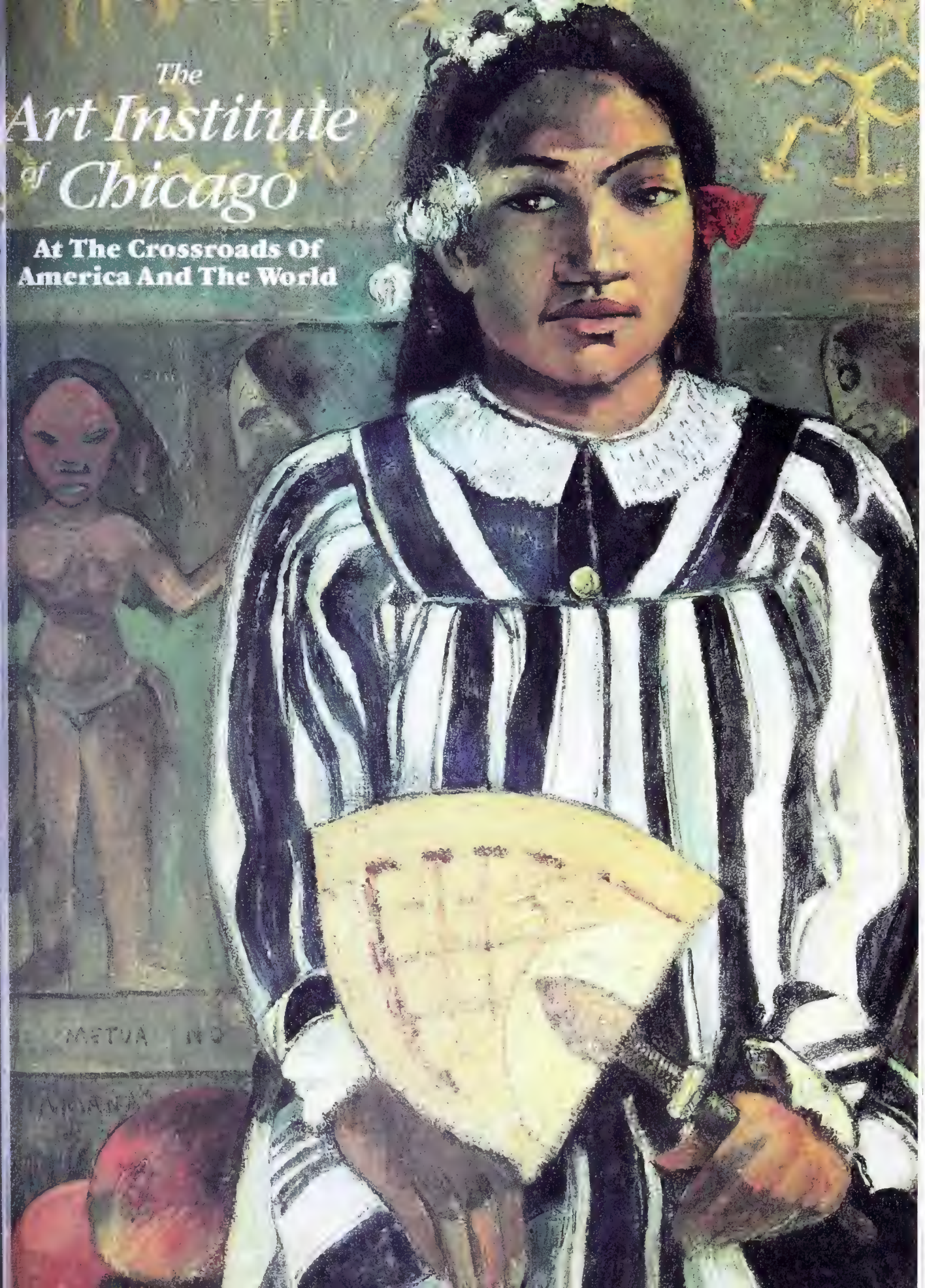
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Ed Paschke

Caliente, 1985, Oil on canvas
The Art Institute of Chicago, Gift of the staff

Ed Paschke: Paintings

The Art Institute of Chicago
October 13-January 2, 1991

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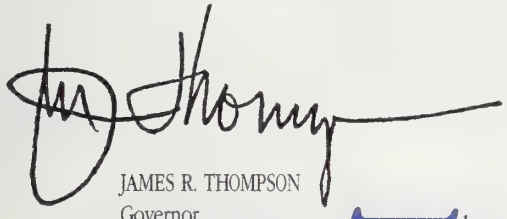

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Cover page: Paul Gauguin's *Ancestors of Tehamana*, 1893. Above: Front facade of The Art Institute of Chicago. Left: The new Daniel F. and Ada L. Rice Building. Far Left: The George F. Harding Collection of Arms and Armor.

All photographs from the collections of The Art Institute of Chicago

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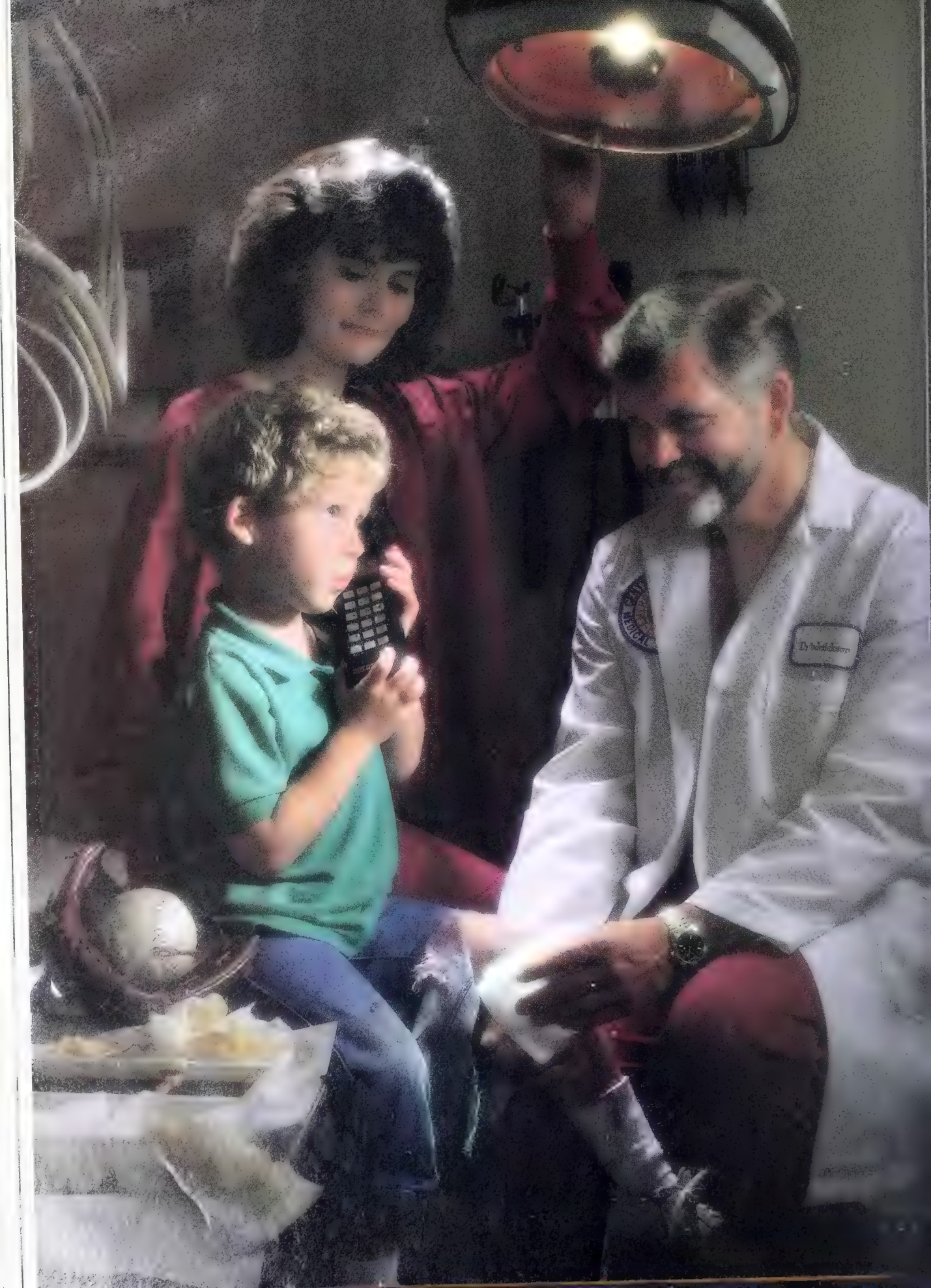

HOW FUJITSU HELPS A BIG HOSPITAL STAY SMALL.

Saint Cloud Hospital in central Minnesota is a regional medical center serving a population of more than 425,000 in a ten-county area covering more than 7,500 square miles. It's a highly progressive, rapidly expanding institution with hundreds of doctors, comprehensive services, and an attitude of intense human concern. Patients are never numbers, they're people. And they are treated like people. For all its size, Saint Cloud Hospital still feels 'small'.

CARING INTIMACY

The hospital has worked very hard to ensure an environment of caring intimacy, developing many special programs and procedures and investing heavily in technologies that free its people to focus on people.

One current investment is in hundreds of portable and mobile cellular telephones to give the hospital instant two-way communications with its on-call staff. The phones have put doctors and nurses in touch as never before, and have begun to find a wide range of unexpected uses for themselves —like letting emergency room patients reassure loved ones directly from a moving hospital gurney.

SELECTED FUJITSU

Saint Cloud Hospital, working with its service provider, United States Cellular, studied a variety of cellular telephone brands before it finally settled on Fujitsu. It chose Fujitsu not only for the quality of its telephones but for the quality of the company behind them. Fujitsu is one of the world's largest computer and communications companies—a high-tech powerhouse that's a major force in the global information revolution. With 115,000 employees, projects completed in a hundred countries, and manufacturing facilities across the U.S.A., it's a company that's many things to many different people. To the people at Saint Cloud Hospital, it's a giant that's helping them stay small.

Gary Gibson of Fujitsu talks with Bill Becker of Saint Cloud Hospital and Joe Salaski of United States Cellular Mobile Telephone Network. United States Cellular, a nationwide carrier which operates the cellular network in St. Cloud, Minnesota, strongly recommends Fujitsu phones. For information call Fujitsu at (214) 690-6000.

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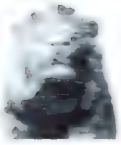
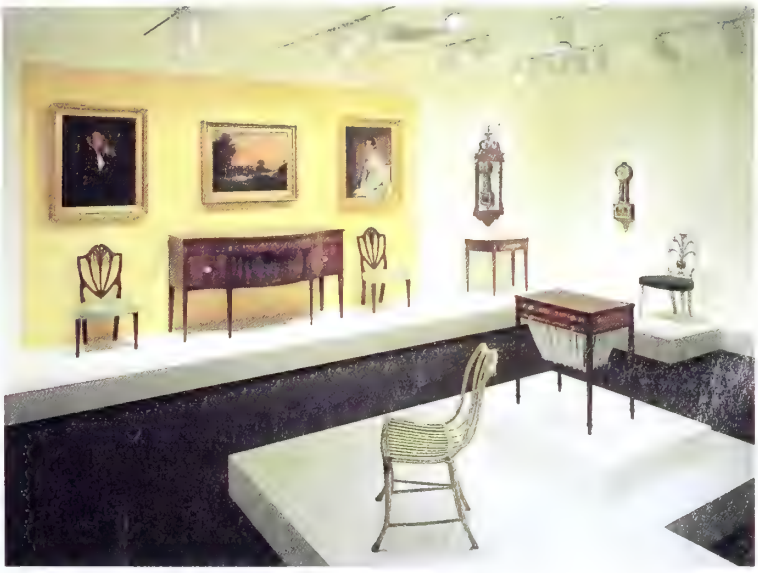


at the same time as the original building.

Other projects, nearly as ambitious, are now in progress. The Institute is currently carrying out a complete reinstallation of its exceptionally strong collection of 20th-century painting and sculpture, which will open in 1991. Next, in 1992, the renovated Galleries of Asian Art and the new Asian Study Center will open.

By that time, every department will have received either new or greatly improved space, as the Art Institute in effect makes itself into a completely new museum. But it was the combined effort of renovating the original building and constructing the Rice Building that announced the Art Institute's intentions. To realize its vision for the future, the Institute would re-establish its legacy from the past.

"Look at these early photographs," Wood urges a visitor. He produces a view of the Art Institute as it appeared in 1893: a Renaissance-revival palazzo, newly constructed for the World's Columbian Exposition. "It had all the confidence of a classical temple secure on its acropolis. But you can see that this building rested not upon God-given rock but on a rubble-strewn expanse of recent landfill. On the west, it was bordered by the emerging modern architecture of a commercial city. To the north were warehouses and factor-



Far Left: Georges Seurat's *Sunday Afternoon on the Island of La Grande Jatte*, 1884-86. Left: William Rush's *Bust of General Andrew Jackson*, 1819. Below: The Robert R. McCormick Gallery features 19th-century furniture and paintings.

10:15 AM

An Arizona college uses NEC's big business technology to reach its smallest class.

There aren't many colleges willing to go the extra mile — let alone more — to help two students fulfill their graduation requirements. But thanks to NEC's sophisticated telecommunications equipment, Maricopa County Community Colleges have put music majors Correne Lane and Casey Henry in a class by themselves.

To graduate, both students must complete a course in Music Theory held on a campus too far away for either to reach. But with NEC's teleconferencing technology, Correne and Casey can now attend class three times a week. The system's two-way communication capabilities allow them to see and hear their professor while he watches and listens to their performances.

In addition to helping the college bridge the gap between teachers and students, Maricopa is also using other NEC interactive equipment to keep administrators and educators on the same wavelength.

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The permanent collection, which now includes over 250,000 works of art, is global in scope and renown.

ies, smoke and grime. And on the ea
were railroad tracks, convergi
from both the Atlantic and the Paci
on a barren strip of lakefront."

Though still young and brash, Ch
cago was already America's cros
roads—but its aspirations did n
end with that. For all its roughne
the city dared to aspire to be a cent
of world culture.

"The 1893 building," Woo
explains, "with its classical
inspired forms, was meant to conv
that sense of idealism to the city
leadership. At the outset, this w
less a credible museum than a
expression of civic confidence—
declaration that the city's new p
vate wealth would collect and dona
the masterpieces that Chicago had
acquire if its cultural claims were
be taken seriously."

A LEGACY FROM THE PAST

Today, no one would dispute th
Chicago has made good on its pro
ise. The Art Institute has inde
brought the world to the corner
Michigan Avenue and Adams Stree

Exhibitions, organized by a
involving the Art Institute, link
with major museums everywhe
—Moscow, Paris, Tokyo, Mexico Ci
—meanwhile bringing an unen
ing stream of international visito
into the galleries. The permanent c
lection, which now includes ov
250,000 works of art, is global
scope and renown.

Perhaps the best-known of the
holdings is the collection of Fren

mpressionist and Post-Impressionist aintings, housed in the Pritzker alleries of 19th Century European rt. Among these famed works are eurat's *Sunday Afternoon on the sland of La Grande Jatte* and van ogh's *Bedroom at Arles* from the lelen Birch Bartlett Memorial Collec- on, and the largest single group in he world of Monet's *Grainstacks* eries. Beyond these, the paintings ollection includes masterpieces of ll periods and nations: the vivid nar- ation of *The Life of John the Baptist* y Giovanni di Paolo, the exquisite *irgin, Child, with St. John the aptist* by Correggio, El Greco's nonumental *The Assumption of he Virgin,* Tiepolo's Baroque fantasy f *Rinaldo Enchanted by Armida.*

The Institute's holdings of prints nd drawings, ranging from works by lbrecht Dürer and Rosalba Carriera o Arshile Gorky and Jasper Johns, re equally distinguished. Visitors ay view selections from this collec- on in galleries adjacent to the Glore rint Study Room and also on the useum's second floor. There, a nique system of corridor galleries llows these delicate works on paper o be exhibited in close proximity to he skylit galleries, so that visitors ay see Rembrandt's etching *The hree Crosses* only steps away from is painting *The Artist's Father*, or egas' pastel *The Star* near his lumi- ous oils.

The collection of 20th-century ainting and sculpture is widely cknowledged to be among the best n any museum. Here, the full story f our century's art may be seen, rom Picasso and Matisse to Jackson ollock. In these galleries, visitors

Far Left: Caravaggio's *The Resurrection*, c. 1610, Below: El Greco's *The Assumption of the Virgin*, 1577.

The Art of Building

The Asahi Beer
Azumabashi Hall, Tokyo
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Global Environment Think Tank, architects
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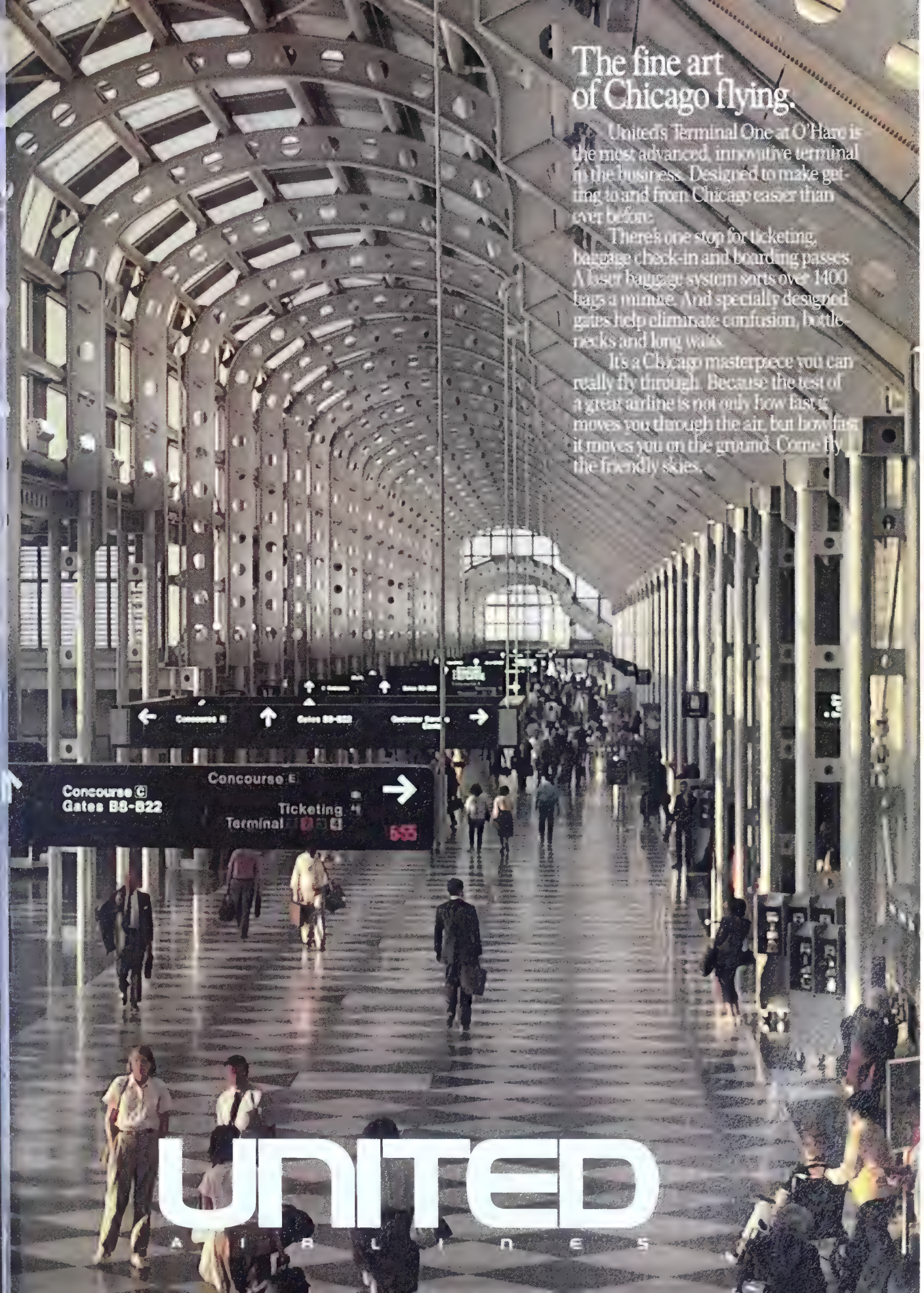
may find works as challenging as Willem de Kooning's pathbreaking *Excavation* or as instantly recognizable as Edward Hopper's *Nighthawks* and Grant Wood's *American Gothic*.

The collection of the Department of American Art encompasses fine silver and furniture from the colonial period to the present; a vibrant grouping of folk art; sculpture from early ships' figureheads to the works of Augustus Saint-Gaudens and Thomas Eakins; and paintings from John Singleton Copley's *Mrs. Daniel Hubbard* to Mary Cassatt's *The Bath* and Winslow Homer's *Croquet Scene*.

Prominent among the holdings of European decorative arts and sculpture are such extraordinary works as the Napoleonic *Londonderry Vase*—a signal achievement of the Empire's architects and painters, as well as of its ceramicists—and a group of Rodin's works including *Adam*, *Portrait of Balzac*, and *Burgher of Calais (Jean d'Aire)*.

Vincent van Gogh's *Self Portrait*, 1886-87 (above) and (below) his *Bedroom at Arles*, 1888.

The Institute's distinguished Asian collection comprises work spanning nearly five milleniums from China, Korea, Japan, India, Southeast Asia, and the Near and Middle East—everything from a Bronze Age wine vessel from China's late Shang Dynasty (13th-11th century B.C.) to *ukiyo-e* prints of actors and courtesans from Japan's Edo period.



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Human Electronics—Technology for the Benefit of Mankind:

How a picture tube made in the U.S.A. is helping Americans enjoy a brighter picture of life.

A new state-of-the-art television picture tube factory opens in Troy, Ohio. Business people see it as yet another example of Matsushita's ever growing commitment to manufacture and develop a broad range of products in America. To the people of Troy, like those in towns across America, Matsushita's U.S. operation represents a whole lot more. A chance to enjoy a better picture of life.

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MADE IN AMERICA

Matsushita has 12 manufacturing plants and 6 R&D facilities in the U.S. There are over 100 sales and service centers. The combination of American "know-how" and Matsushita support has created some extraordinary results. From major breakthroughs in digital communications to computer systems that will teach hearing-impaired children to speak. Today, Matsushita's U.S. operation employs over 10,000 Americans who are developing and manufacturing new products made specifically for the U.S. market. And many of Matsushita's American factories are even building products for export to Japan and other countries.

The business community sees Matsushita's U.S. operation as a success. But even more importantly, so do the local communities that are now home to Matsushita.

COMMUNITY UNITY

Matsushita also helps build strong communities. Towns with caring, concerned individuals. To encourage this, Matsushita donates equipment to local organizations, provides facilities for town use, and has set up a $10 million fund to help improve education in primary and secondary schools. Matsushita even endows professorships at Harvard and MIT.

HUMAN ELECTRONICS

Building factories and R&D centers that help people build better lives is just one example of what Matsushita Electric means by the term Human Electronics. Every day Matsushita dedicates its vast resources to researching, developing, and marketing products that make life richer, safer, and more comfortable. In the U.S. these products are sold under the brand names Panasonic, Technics, and Quasar. In 1989, Matsushita's worldwide consolidated sales volume surpassed $37.7 billion. All a direct result of a single-minded philosophy: Don't create technology for technology's sake, but for man's sake.

MATSUSHITA ELECTRIC

PANASONIC TECHNICS QUASAR

(1638-1868). Beginning in 1992, when the Institute inaugurates its renovated Galleries of Asian Art, including a new Asian Study Center, the public and the scholarly community alike will gain a fresh appreciation of the riches of this department's holdings, which are equalled in few places in the Americas.

Since the late 19th century, with the development of tall office buildings and the beginnings of the Prairie School, Chicago has been known as a center for American architecture. It is therefore appropriate that the Institute should have one of the very few departments of architecture in any U.S. art museum. The collection, focusing on drawings, models, and fragments by renowned Chicago builders such as Frank Lloyd Wright, Daniel Burnham, and Mies van der Rohe, was formed around the archive of approximately 50,000 drawings in the Institute's Burnham Library of Architecture. Among the more notable works is a reconstruction of the trading room from Adler and Sullivan's Chicago Stock Exchange (1893-94).

The outstanding holdings of the Department of Photography were built around Georgia O'Keeffe's donation of a major portion of the Alfred Stieglitz Collection. The department now contains representative works of many of the medium's most celebrated practitioners, from early pictures such as *The Portal of St. Ursinus at Bourges* (1863) by the Bisson Brothers, through classic

Far left: Pablo Picasso's *The Old Guitarist*, 1903. Left: Henri de Toulouse-Lautrec's *At the Moulin Rouge*, 1894-95. Below: Edgar Degas' *The Millinery Shop*, 1879-84.

An open letter to Lee Iacocca.

RECEIVED
OFFICE OF THE CHAIRMAN

Dear Mr. Iacocca

I sat in an ambulance today looking at my 20 year old daughter Kellys beautiful face. She still has her beautiful face & her life because of you.

Two weeks ago today she drove out of her Chrysler dealers lot so proud of her 1990 blue Sundance. Today a truck hit her at about 60 mph. It took them 1/2 an hour to get her out of what was left of her new car. The police said she would surely be dead if not for her airbag. There was a perfect imprint of her lipstick in the center of that airbag & not 1 scratch on her face. She has a broken hand that will need surgery, a broken foot — multiple cuts & abrasions on the arm next to the door — lots of bruises — all of which will heal.

The day after tomorrow her younger brother will graduate from high school & she will be there to see him get his diploma. (What a sad day it could have been.

I thanked God for you & your deep appreciation & dedication to automobile safety. Because of you I still have my little girl.

With all of a mothers love, Nancy Dillo

Advantage: Chrysler.

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works by André Kertesz, Man Ray, and Henri Cartier-Bresson, to photographs by contemporary masters such as David Hockney, Irving Penn, and Joel Meyerowitz.

The Department of Africa, Oceania and the Americas is especially strong in West African sculpture and in ceramics and fine goldwork from the principal ancient civilizations of the American Southwest, Meso-America, and Andean South America. In its galleries you may find works such as a

Right: Martin A. Ryerson with Claude Monet in Giverny, France, 1920. Far Right: Anders Zorn's *Portrait of Mrs. Potter Palmer*, 1893. Left below: Claude Monet's *On the Seine at Bennecourt*, 1868. Right below: Photograph of Mr. & Mrs. Martin A. Ryerson (L) with Mr. & Mrs. Charles L. Hutchinson (R).

owerfully sculpted veranda post, riginally from the courtyard of the oruba royal palace; a highly realistic loche portrait vessel from Peru; and n 8th-century Mayan relief carving, epicting a ritual game.

The Textile Department's holdings, nging from 500 B.C. to the present, nclude Peruvian textiles, 17th- and 8th-century European woven fab-cs, French and English printed cot-ns, 17th- and 18th-century English eedlework and lace, American oven coverlets, and 20th-century xtiles. Among the most extraordi-ary works in the collection is a anish retable and altar frontal, cre-ed c. 1468 for the Bishop of Osma—irtual encyclopedia of needlework chniques.

Collections of this importance and agnitude require scholarly sup-rt. Department by department, the stitute boasts of curators who are spected around the world for con-ibutions to their fields. One of the ratorial staff's greatest resources close to hand in the Institute's erson Library, the second largest rary in any U.S. art museum. Its llection has a special emphasis on e arts of France and the United ates, Surrealism, and Dada. The joining Burnham Library is con-lered to be the most distinguished chitectural history library in any nerican museum.

And extraordinary collections also quire a comparable level of care. e Art Institute has one of the top ven conservation departments in e United States. In addition, the tile and photography departments ch have their own state-of-the-art nservation centers.

All this is impressive enough—but what makes the Art Institute truly unique is that it combines a great museum with an independent college. The School of the Art Institute of Chicago is internationally recognized as a leading undergraduate and graduate center, providing a strong liberal arts education as well as artistic and technical training. With over 300 faculty members and a full-time enrollment of 1600 students, the School is a place where the traditions of artistic expression are taught side by side with cutting-edge technology such as lasers, computers, and interactive video.

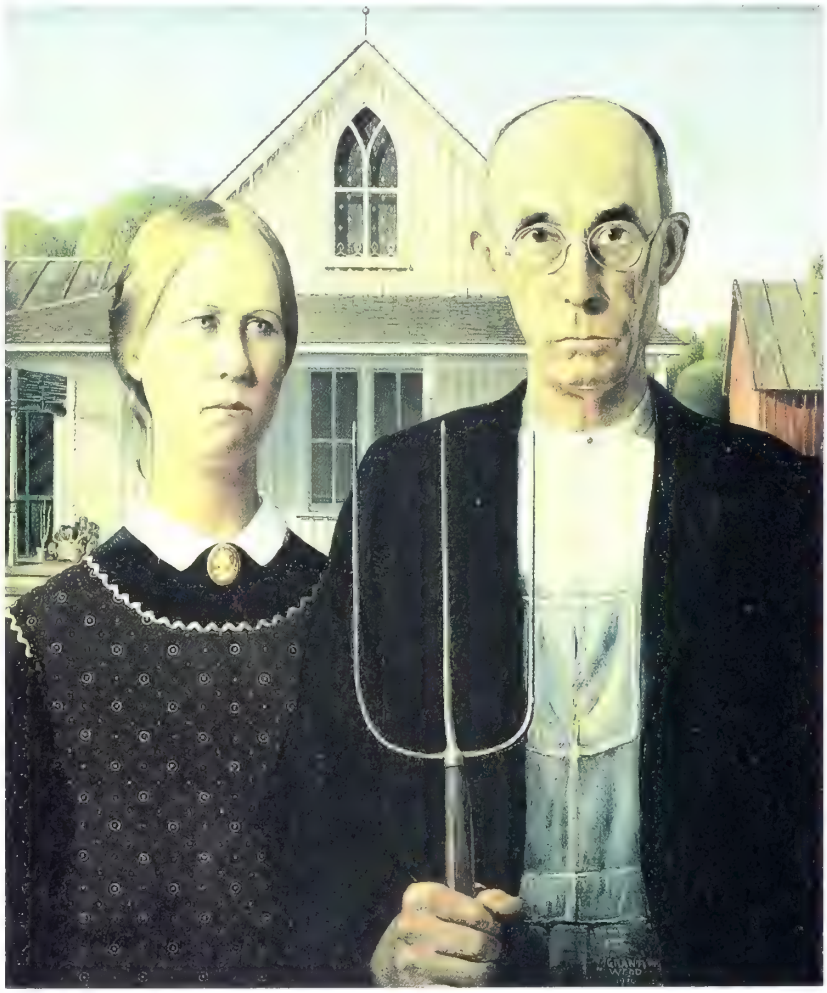
"Students come with a talent for art," says the School's president, Anthony Jones. "Our job is to see that they explore and expand those talents. Our responsibility is to help them become well-educated adults

The story of the Art Institute is the story of men and women who made civic culture a part of their business.

SPECIAL ADVERTISING SECTION

capable of working successfully and creatively, no matter what career paths they ultimately choose."

So successful has the School been that its alumni list reads like a who's who of American art: Georgia O'Keeffe, Claes Oldenburg, Robert Indiana, Halston, Grant Wood, Thomas Hart Benton, Elizabeth Murray, Ivan Albright, Laurie Anderson, Vincente Minnelli, Richard Hunt, Archibald Motley, Ed Paschke, and Walt Disney are only a few of the names. At the School, students find inspiration not only in the classrooms and studios but also in the museum galleries, where they may often find the works of their predecessors on display.



So successful has the School been that its alumni list reads like a who's who of American art.

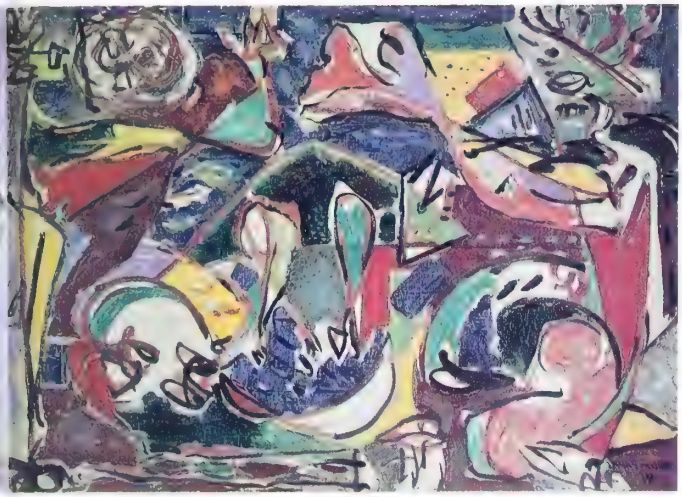
THE LEGACY BEGINS

What had once been an isolated building on a rubble-strewn lot has now become everything its founders had desired. The Art Institute has become a center of world culture, in little more than a century. How did it happen?

James Wood points to part of the answer when he describes Chicago as "a city in which the marriage of art and commerce becomes visible. You can see that union symbolized in the way two commuter railroads literally run through the Art Institute, or i the way the museum incorporates, a one of its prized holdings, the trad ing room from Adler and Sullivan Chicago Stock Exchange building In large measure, the story of the A Institute is the story of men an women who made civic culture a pa of their business

A century ago writes historia Linda S. Phipp "Chicago wa known for tal smoke-blackene office buildings; considerable vo ume of trade large, noxiou stockyards; an little more." Th was the context which a group business leade incorporated th Chicago Acaden of Fine Art pledging themse ves "to foun build, mainta and operate mus ums of fine art schools, an libraries of art and to carry o appropriate acti ties conducive to the artistic develo ment of the community."

The date was May 24, 1879. By Se tember of that year, the Academy h opened an art school in the Loc Plans were already being made to up a gallery as well, to be open to t public free of charge. In 1882, t Academy formally changed its na



Far left: Grant Wood's *American Gothic*, 1930. Left: Jackson Pollock's *The Key*, 1946.

The Art Institute of Chicago. Soon, e trustees were negotiating with e managers of the upcoming orld's Columbian Exposition in the ope of constructing a permanent me for the Institute.

Had the trustees agreed to build on e South Side, where the main fair-grounds were being set up in Jackson Park, they would have enjoyed much greater financial support from the Exposition. But the trustees were determined to make the Art Institute asccessible to as many Chicagoans as possible—and that meant locating the building in the very midst of the city, no matter the cost. So it was that on November 1, 1893, the Art Institute took formal possession of its new home, which today is still the institution's physical and spiritual core.

Of the business and civic leaders who made this possible, the foremost was Charles L. Hutchinson, who served as the Art Institute's president from 1882 to 1925. He was the son of crusty, plain-spoken Benjamin Hutchinson, a commodities trader and founder of the Corn Exchange National Bank, who forbade Charles to attend college. Charles responded

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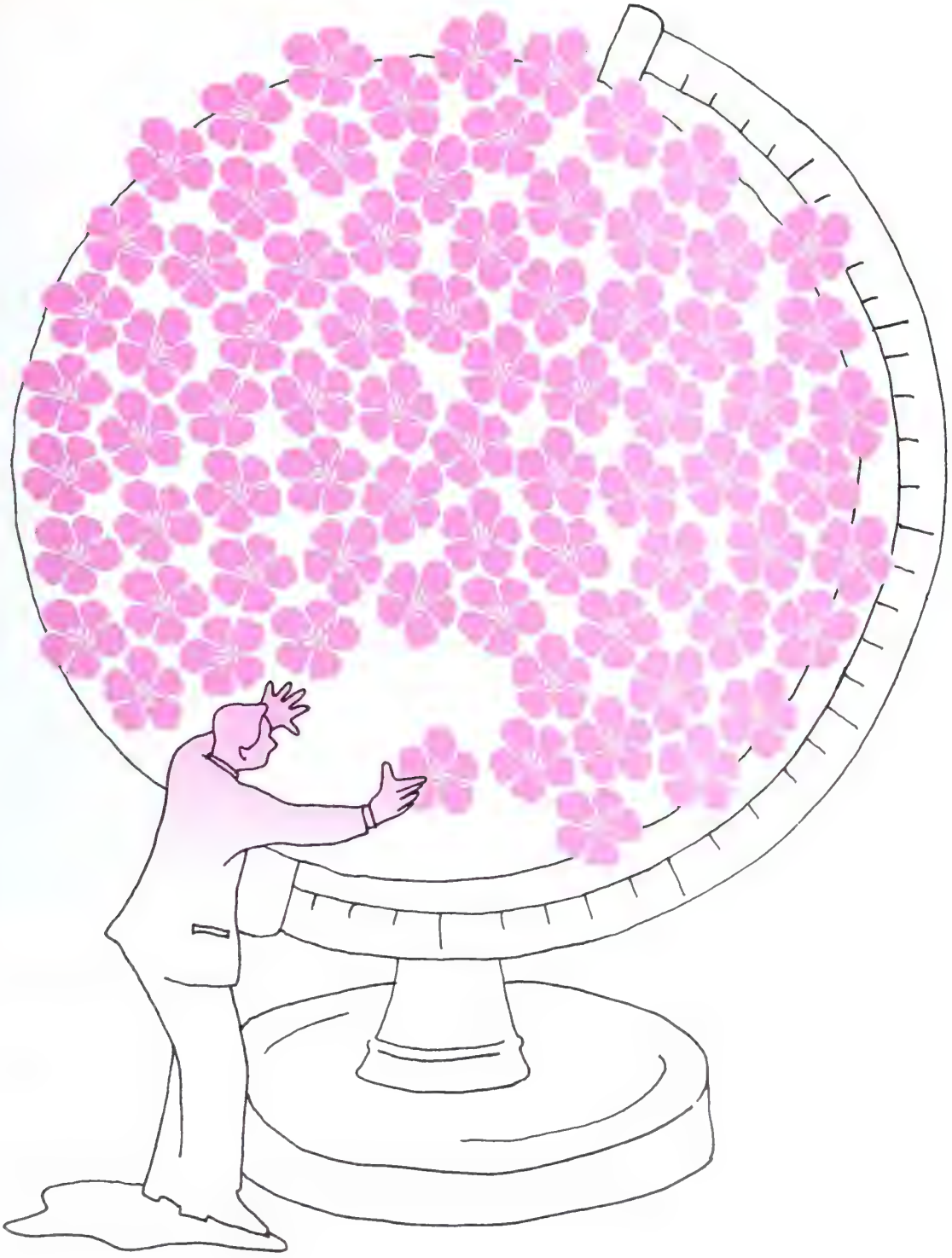

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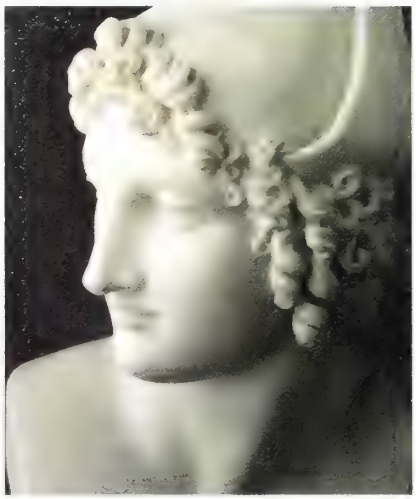
by rising to the presidency of both the bank and the Chicago Board of Trade, meanwhile giving himself an education far broader than his rough-hewn father had feared. In addition to serving as the Art Institute's president for 43 years, Hutchinson was a trustee of The University of Chicago and The Chicago Symphony Orchestra and a guarantor of *Poetry* magazine.

His constant partner in building the Art Institute was Martin A. Ryerson, the son of a one-time Indian trader. Ryerson briefly pursued a legal career, then took over his father's thriving lumber business. But his major energies, like Hutchinson's, went into civic and cultural enterprises. As vice-president of the Art Institute for many years, he may have stamped his personality on the institution to a greater extent than any other individual, eventually donating an extraordinary collection of 227 paintings. James Wood speaks of him as "one of the pre-eminent Old Master collectors of his generation, man of tremendous breadth, whos taste and standards remain a mode for today's museum."



"We are proud of the museum and the school..."

MARSHALL FIELD V

A third name is inexorably linke with the Art Institute's early history Bertha Honoré Palmer. Although sh has always been better known to th public as the leader of Chicago's hig society, Mrs. Potter Palmer was businesswoman of great abilities who doubled the fortune she inhe ited from her husband. Her friend ship and patronage helped sustai one of America's greatest painters Mary Cassatt, and one of its greates social reformers, Jane Addams. As principal official of the World' Columbian Exposition, Mrs. Potte Palmer helped ensure the success o the fair and the establishment of th Art Institute. As a passionate an independent-minded art collecto she acquired works that now for the core of the Institute's celebrate holdings of Impressionist painting.

Above: Antonio Canova's *Paris*, 1809. Left: Correggio's *Madonna, Child & St. John the Baptist*, 1513-1515.

THE TRADITION CONTINUES

Extraordinary business and civic fi ures such as Hutchinson, Ryerso and Palmer nurtured the Art Inst tute during its early years—but the efforts ultimately would have bee futile unless others had taken up th cause.

Through its first century, the A Institute enjoyed strong suppo from leaders in commerce, industr and the civic community, many whom gave outstanding collectio to the Institute. Their names ha become a permanent presence in th Art Institute: Frederic Clay Bartle, Mrs. Lewis Coburn, Russell Tyso

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Charles and James Deering, Max Epstein, Charles and Mary Worcester, Stanley McCormick, Kate S. Buckingham, William McCormick Blair, Mrs. Tiffany Blake, Leigh and Mary Block, Arthur Rubloff, Edwin Bergman, James Alsdorf, Helen Regenstein, Joseph Shapiro. When James Wood speaks of maintaining the Institute's link with the past, he has in mind not only the integrity of the museum's buildings but also this uninterrupted chain, binding yesterday's great patrons and today's.

Five people signed the Art Institute's papers of incorporation in 1879, among them Marshall Field. Today, the president of the Art Institute is Marshall Field V. Now in his third decade on the board, Field manages his business interests in the afternoon but gives the mornings to the Institute, where a visitor might find him in a modest office, an ID card dangling over his tie. "The board of trustees and I are engaged in strategic planning," Field explains, "to ensure that our museum and school will meet the complex and ever-changing challenges of the '90s. We are exploring avenues to interest more people in the exciting world of art—a world that offers enrichment to all.

"We are proud of the museum and the school," Field says, "and will continue to build on our rich heritage We will continue to share our trea sures not only with our city but with visitors around the world."

Fortunately for the Art Institute Chicago has a host of business lead ers who share Field's enthusiasm His predecessor as president of th board, Bowen Blair, is senior partne of William Blair and Company. Fo John H. Bryan, Jr service as vice-pres ident and treasure of the Art Institute' board is a commi ment in keepin with his other activ ities. He is also pres ident of th Business Commi tee for the Arts and as chief executiv officer of Sara Le Corporation watches over one the premier corpo rate art collection in the United State Brooks McCormic as life trustee of th Art Institute, is th retired chairma chief executive of cer, and director International Ha vester Compar (now Navistar Inte national, Inc.). H family name, alon with Field's, may found on the A Institute's recently inaugurated G leries of American Art.

Arthur M. Wood, retired chairma and chief executive officer of Sea

Above: Coptic linen wool hanging, Egypt, 5th/6th century. Right: Retable and altar front, Burgo de Osma, Spain, c. 1468.

oebuck & Co., is a former chairman f the Institute's board of trustees id now serves as a life trustee, as oes Daniel C. Searle, former chairan of G.D. Searle and currently rector of Earle Kinship Capital Coration. Among the new generation the board is Thomas J. Pritzker, esident of Hyatt Corporation and airman of Hyatt Hotels Corporation. The board also includes John H. Johnson, president and publisher of Johnson Publications and one of the nation's most distinguished African-American business leaders, and Barry F. Sullivan, chairman of the First National Bank of Chicago. The tradition of support from outstanding women in Chicago, as exemplified by Mrs. Potter Palmer, is being carried forward today by trustees Mrs. Marilyn Alsdorf, Mrs. Eloise Martin, Mrs. Quinn Delaney, and Mrs. Lindy Bergman, and by life trustee Mrs. Suzette Morton Davidson.

"At The Art Institute of Chicago, we are proud to have the involvement of the business and civic world," says Larry Ter Molen, vice-president for development and public affairs. "We

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have seen that involvement dramatically demonstrated by the increased support contributed year after year, which enables the Art Institute to move forward confidently, knowing it has the resources to maintain its significant international role in the visual arts."

AN INSTITUTION AS DIVERSE AS AMERICA

Today, about 1.5 million visitors pass through the galleries each year—a group as diverse as the population of America itself. Schoolchildren from Chicago's multifarious neighborhoods, each carrying a folding stool, troop behind their teachers through the halls. Parents and young children flock into the Kraft General Foods Education Center, where the Department of Museum Education provides an early start in art history and appreciation. Travelers from all corners of the world, drawn to the Art Institute as one of Chicago's principal tourist attractions, explore the permanent collection or view one of the temporary exhibitions in Regenstein Hall. And at dusk, as often as not, when the lights have gone off in the rest of the museum, Fullerton Hall and the Arthur Rubloff Auditorium are filling up with audiences for lectures and films, while the Stock Exchange room is just coming to life, as corporate sponsors or the members of a support group gather for a reception beneath the ornate, gilded ceiling.

Toshusai Sharaku's Bust Portrait of the Actor Otani Oniji III as the Manservant Edohei, 1794.

The Art Institute's vision for the future, as James Wood sees it, is to provide a meeting place for just such a diverse population—a destination that will be civic as well as artistic, where people can feel they share in a common culture. It's a goal more easily spoken of than attained, given the rapid changes in American social and intellectual life. "Until relatively recently," Wood explains, "there was considerable consensus as to the purpose of art museums: what they were supposed to do, why they were doing it, who the audience was. That consensus has disintegrated, and we are faced today with the challenge of forging a new consensus."

For the Art Institute, their way to meet that challenge was to re-affirm the civic commitment and identity given it by its founders—an identity expressed in the way they dared to set a Renaissance Revival palace in the heart of the city and insisted it be accessible to all. Though it was grand and imposing, that original building somehow spoke to the people, both at the turn of the century and today. It is one of the marks of the Art Institute's civic role that from the first it invited the public to join as members. Today, more than 108,000 people are part of the Art Institute, giving it the largest membership of any art museum in the United States.

"We've learned that people from all backgrounds and social level want to participate in great institutions," says James Wood. And so while some other museums hav

ried to reach out to a changing population by adopting the architecture f office buildings and shopping alls, the Art Institute has deliberately re-established the Beaux Arts randeur of its building—winning ave reviews from the critics and enewed admiration from the public orldwide.

A VISION FOR THE FUTURE

ow, even as the Art Institute puts ie finishing touches on its program very significant financial progress made over the last decade," says Robert E. Mars, vice-president for administrative affairs. "Our ability to maintain a balanced operating budget during this period has enabled us to increase our endowment and other fund balances, which serve as our financial bedrock, by almost $115 million, more than a threefold increase. However, our financial projections and discussions with our peer institutions indicate

Left: Altarpiece from the Mimbres branch of the Mogollon culture, Southwest United States, c. 1150. Below: Winslow Homer's *The Croquet Scene*, 1866.

Today more than 108,000 people are part of the Art Institute, giving it the largest membership of any art museum in the United States.

physical reorganization, it is newing its sense of mission as well, order to take up the challenges of ie 21st century.

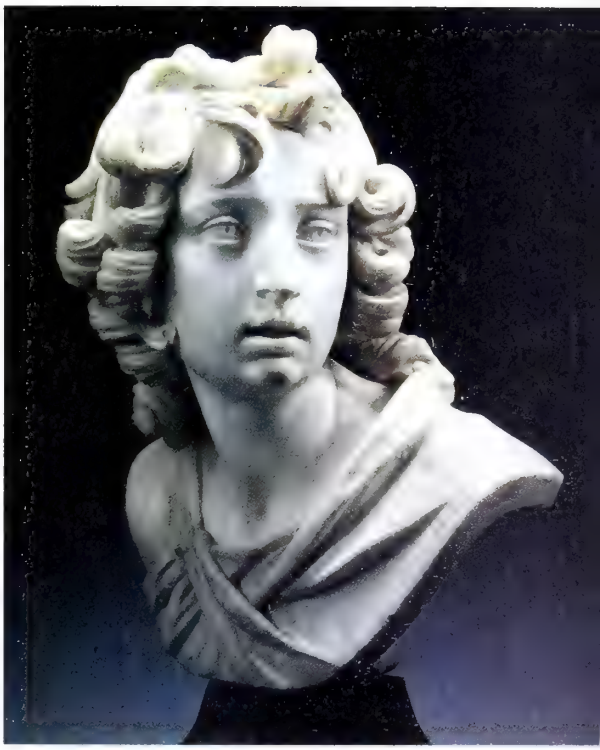
"We are extremely pleased with the that the '90s will be a difficult decade for many of the major cultural and academic institutions throughout the country. Therefore, the design and implementation of a strategic plan to provide a blueprint for overcoming the challenges of this decade is now our first priority."

Foremost among these challenges is the need to reach out to an even more diverse audience. In drafting their strategic plan for the 1990s, the Institute's officials noted that the museum "has always had an equal

SPECIAL ADVERTISING SECTION

responsibility to its audience and its art." But the changing nature of museums and their public requires a renewed emphasis on the audience and the meaning it derives from the collection.

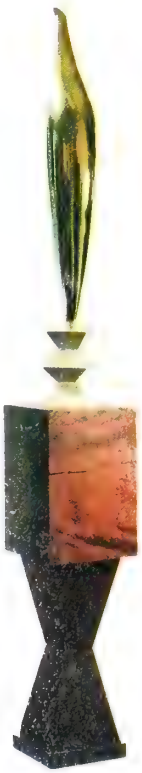
In the coming years, visitors to the Art Institute will notice an increased emphasis on education and interpretation, throughout all parts of the museum. There will be an increased use of the permanent collection for exhibitions; collections of different departments will be integrated more than they were in the past; more programs and exhibitions will be targeted to specific audiences. The Department of Publications will bring out new works on the collections, addressed to readers from the novice to the scholar, so that the Institute's holdings will be more generally known and understood. The Institute will survey its audience more actively, the better to identify its diverse needs.



For many people, their experience of the Art Institute will begin with attendance at a special exhibition. Currently on view is *From Poussin to Matisse: The Russian Taste for French Painting*, part of an exhibition exchange program between the Art Institute and the Metropolitan Museum of Art in America and the Pushkin and Hermitage museums in the Soviet Union. The program has been sponsored by Sara Lee Corporation. Also on view is a retrospective of a celebrated alumnus of the School of the Art Institute—*Ed Paschke: Paintings*, underwritten by grants from the Ameritech Foundation and the Henry Luce Foundation. Other special exhibitions of importance include a retrospective of the photographs of the American master Paul Strand, sponsored by the Southwestern Bell Foundation; *High and Low: Modern Art and Popular Culture*, underwritten by AT&T; and *The Romantic Vision of Caspar David Friedrich: Paintings and Drawings from the U.S.S.R.*, sponsored by the Auxiliary Board of the Art Institute.

Future exhibitions cover an equally impressive range. They include *Modern Art and Politics in Prewar Germany; Gold of Africa: Jewelry and Ornaments from Ghana, Côte d'Ivoire, Mali and Senegal*; a retrospective of the work of the contemporary sculptor Martin Puryear; and *New World: Visions of Man and Nature in Pre-Columbian Art.*

Of the Art Institute's recent acquisitions, perhaps none has been more important than the purchase of Constantin Brancusi's 1919 bronze sculpture, *Golden Bird*. The acquisition gives the Art Institute one of the finest Brancusi collections in the world. But, just as important, it saves a major work for the city of Chicago. *Golden Bird* had been destined for auction because of the financial needs of its previous owner, the Arts Club of Chicago. "To have let it leave," says James Wood, "would have been unthink-



Above: Francesco Mochi's *Bust of a Youth (St. John the Baptist)*, c. 1610-20. Left: Constantin Brancusi's *Golden Bird*, 1919.

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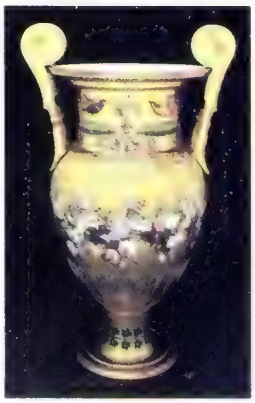
able. The piece is seminal to Chicago's reputation as a center for modern art." *Golden Bird* will join the Institute's other holdings of Brancusi in the reinstalled galleries for 20th-century painting and sculpture when they open in 1991.

Among the Institute's other major recent acquisitions is a highly important group of old Master drawings from a notable collection assembled by the British Rail Pension Fund in London. Prominent among these are Pontormo's *Christ Before Pilate*, Piero di Cosimo's *Standing Figure Leaning on a Staff*, and a splendid sketch, *Rocky Landscape*, from Claude Lorrain's early years in Rome.

In the field of Asian art, the Daniel F. and Ada L. Rice Foundation has given the Institute a number of major donations, including a pair of six-fold screens, *Millet Fields with Sun and Moon*, from the early Edo Period in Japan (17th century). The Rice Foundation is also among the contributors to the new Galleries of Asian Art. The Institute has received three gifts



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With such plans afoot, the futur
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Hutchinson and his fellow bus
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The proof stands in all its glory at th
very center of Chicago, in the midd
of the crossroads of America—and
the world.

*This special section was written by fil
critic and columnist Stuart Klawans.*

Left: Desk and bookcase, Boston, Massachusetts, 1701-35. Middle: Edward Hopper's *Nighthawks*, 1942. Above: *The Londonderry Vase* made by the Sèvres Manufactory, 1813.

The art of diplomacy

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CAN THESE UPSTART AIRLINES HANDLE THE HEAVY WEATHER?

Soaring fuel costs and looming recession leave Midway and America West even less room for erro

Deregulation was supposed to open the door to new airlines. But faced with huge fixed costs and cyclical demand, most startups were overwhelmed by the established carriers. People Express, Air Florida, World Airways—the examples of failure abound.

America West and Midway have survived. Good market niches and strong traffic growth have made up for thin balance sheets. But neither has found the secret of steady profits (charts). Now, as the Middle East crisis sends jet-fuel prices soaring and the specter of recession looms, every move is crucial. Midway has already stumbled. America West is determined not to. Here's how both plan to stay alive.

AMERICA WEST: SUCCESS IN THE SOUTHWEST

America West Airlines Inc. was a typical '80s startup. Led by Edward R. Beauvais, its burly chairman, the carrier barely blinked when its offices burned to the ground in 1982, just a year before its first Boeing 737 took off from Phoenix. Beauvais held strategy sessions around his backyard pool. He remortgaged his house to chip in toward $20 million in startup capital. He even enlisted two of his kids to help sling baggage.

Not so typical is the fact that America West is thriving eight years later. In an industry that has been murder on most small airlines, America West has blossomed into a $1 billion carrier by dominating the skies above the hot Southwestern desert. With hubs in Phoenix and Las Vegas, it serves 60 cities from New York to Honolulu with nearly 100 planes. It is taken seriously as a bidder for the Pan Am Shuttle and, pending Transportation Dept. approval, it will begin flying next year to Nagoya, Japan. Says J. Ray Vingo, Alaska Airlines Inc. chief financial officer: "There's no doubt America West is here to stay."

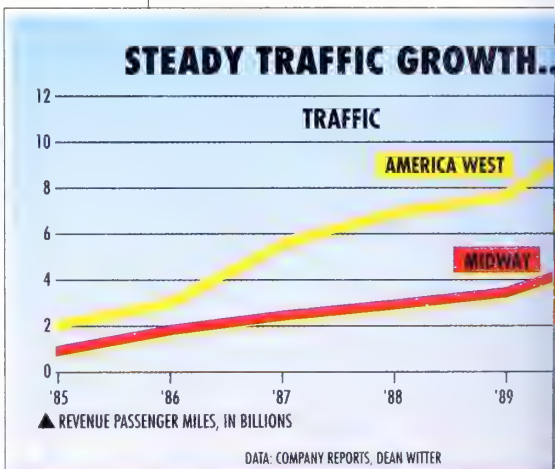
Skeptics have long predicted the highly leveraged carrier's demise. The naysaying hit a crescendo when overambitious route expansion led to a $46 million loss in 1987. America West's balance sheet is still a mess. But with traffic 43% ahead of last year, even Beauvais' critics concede he has found a winning formula: Dual hubs in Phoenix and Las Vegas have enabled America West to tap the Southwest's explosive growth.

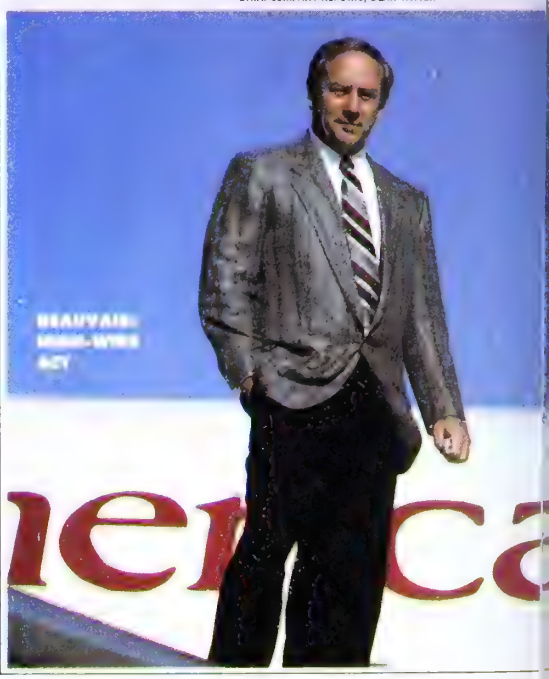
And because Beauvais' fleet is new and his young work force is nonunion, his costs are among the industry's lowest. That gives him the luxury—at least for now—of fulfilling that gossamer promise of deregulation: full service at low prices. No bare-bones People Express here. America West serves up full meals, hot towels, and free drinks.

SPREAD THIN? Still, with soaring fuel costs and a threat of recession, it's unnerving to investors that Beauvais, 53, has yet to turn a consistent profit. During the first half of this year, America West's sales shot to $631 million from $472 million a year ago. But net income, hit by heavy interest expense and high fuel costs, sank to $4 million from $13 million. America West's breakneck growth has piled up $624 million in debt. At 85% of total capital, that casts a shadow over further expansion.

America West's Hawaii service is an example of Beauvais' high-wire act. Flying to Honolulu from Phoenix and Las Vegas helps fill America West's flights into those hubs from places such as New York or Chicago. It also vaults the carrier's frequent-flyer program into the big leagues by promising free trips to the islands. Trouble is, the flights to Hawaii lose money because stiff competition. Beauvais insists losses are more than made up for increased traffic throughout the syste But while United and American can ford a loss leader such as Hawaii, route is spreading America West thi

Beauvais will hear none of that. " are going to be one of the most succe ful stories ever written in commer aviation," he boasts. Honolulu was signed as a Pacific Rim hub. Althou





nerica West lost a hotly contested bid r a Tokyo route last May, it is await- g approval to fly to Nagoya, a big panese industrial center. Next year, it pes to fly to Hong Kong and Taipei d to Australia by 1993.

Meanwhile, the airline plans to close a al with GPA Group PLC and Airbus In- strie by Oct. 1 to lease 100 Airbus 320 planes. America West would get 16 the planes immediately, and Beauvais ght send some of them winging on w routes to Florida. The deal would so give America West a bonus. Anx- us to unload the planes, GPA and Air- s are giving the carrier about $150 llion in cash and lease considerations a sweetener. That should help Beau- is shore up his balance sheet.

For now, America West and its 3% rket share are only a blip on the ra- r screens of big rivals such as Ameri- n and United. But they're starting to tice. When America West began fly- g into Dallas from Phoenix this sum- r, American added four round trips the route and cut its fare to match the newcomer's $198 roundtrip price.

American ultimately boosted its price to $251. A persistent Beauvais crept up to just $238. American backed off this time. But if Beauvais keeps prodding the big guys, he'll need profits more than persistence to stay above the clouds.

By Eric Schine in Phoenix, with Mark Maremont in London

MIDWAY: FOGBOUND IN PHILLY

As Ed Beauvais charts his heady growth strategy at America West, he might be wise to ponder Midway Airlines Inc.'s recent history.

Just a year ago, Midway Chief Executive David R. Hinson was also flying high. The 10-year-old carrier he had helped found was in the black and poised to take its biggest chance yet. Dominant but constrained at Chicago's aging second airport, Midway rolled the dice: It bet $210 million on bankrupt Eastern Air Lines Inc.'s Philadelphia hub. "Philadelphia," Hinson assured investors, "provides Midway a unique opportunity to develop new markets at acceptable levels of cost and competitive risk."

What a difference a year makes. Since opening last October, the hub has plunged Midway deeply into the red. The ill-fated gamble is a case study in how quickly a small airline can run into trouble. Midway was hit with heavy startup costs just as fuel prices spiked in late 1989, slamming operating earnings. The carrier also found itself squeezed in a service and price battle along the East Coast with Philly leader USAir and a fare-slashing Eastern.

HOSTAGE. All this has sent Midway's finances spinning dangerously out of control. A $27.3 million fourth-quarter operating loss wiped out 1989 profits. And the carrier will lose an additional $50 million before taxes this year, estimates analyst Rose Ann Tortora of County NatWest Securities USA. Meanwhile, long-term debt and lease costs have soared, just as the threat of a recession appears on the horizon. Says Bear, Stearns & Co. analyst Thomas C. Longman: "This size of an airline cannot lose this amount of money indefinitely."

Unfortunately, Hinson didn't have much choice. Because of runway, air-traffic control, and gate constraints at Midway Airport, the carrier had little room to grow at its home base. Moreover, unlike America West, Midway's core markets were mature and highly competitive. Behemoths United Airlines Inc. and American Airlines Inc. dominate Chicago from nearby O'Hare International Airport. By contrast, America West's key competitor in Phoenix is Southwest Airlines Co., a small airline that targets budget-minded commuters.

Philadelphia promised plenty of local passengers to bolster the north-south connecting traffic Midway hoped to draw from East Coast cities. It also pushed low-cost Midway into territory controlled by high-cost USAir. Says Hinson: "We felt there probably would not be another opportunity to do this again."

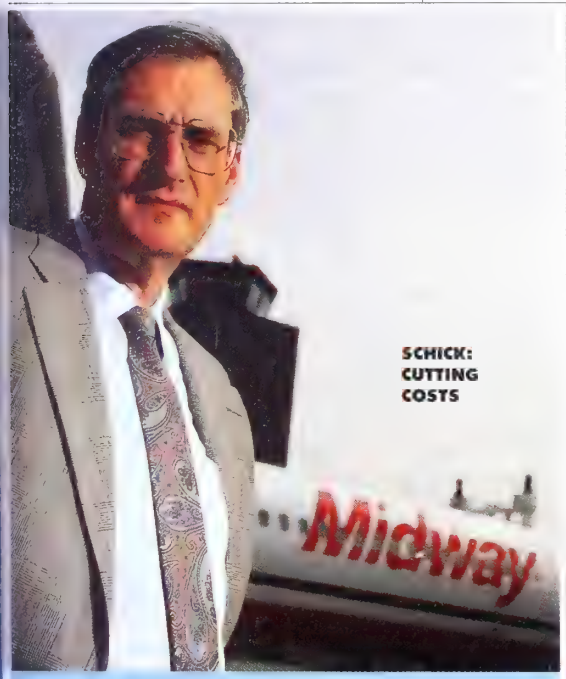
FUEL GUZZLERS. But the gamble was undone by two factors that sent the carrier's pre-acquisition calculations out the window: a jump in fuel prices and deep discounting by a frantic Eastern. Midway executives expected to average $99 each way for trips to Florida, but Eastern slashed fares to $89 and, later, to $79 during much of the peak winter season. Concedes Midway Senior Vice-President John P. Tague: "We miscalculated."

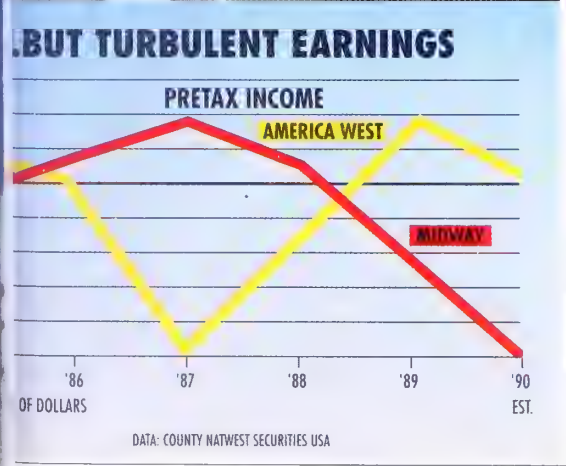
The unenviable task of reviving Midway falls to President Thomas E. Schick, a former USAir top executive whom Hinson hired this summer. Schick has intimate knowledge of Midway's biggest competitor in Philadelphia and has stepped up a program to slash unit operating costs 15% by cutting 150 employees, limiting overtime, and wringing better terms from suppliers. He also has cut the number of new markets Midway will enter this year.

But even Schick admits that soaring jet-fuel prices—up more than 40% since Iraq invaded Kuwait—threaten to wipe out much of the benefit. It doesn't help that Midway's fleet is largely composed of older, fuel-guzzling DC-9s. Short of abandoning Philadelphia—which Schick insists is not an option—there's little Midway can do strategically except bite the bullet and wait for better economic times, the death of Eastern, or both.

That's a tall order. "The entire industry is under a lot of pressure," says Schick. "Anybody who is straightforward and honest will tell you that this period will be a struggle." Caught between limited resources and the need to grow, struggle is a way of life for the little guys in the airline industry.

By James E. Ellis in Chicago





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ACCOR'S PELISSON AND DUBRULE

STRATEGIES

ACCOR GOES WITH THE MODIFIED AMERICAN PLAN

Will checking into Motel 6 help it crack the U.S. market at last?

It was the event of the summer at Paul Dubrule's vineyard estate in southern France. Cheerleaders and 100 guests watched their 56-year-old host race his brother-in-law, age 23, in a grueling three-day-long bike competition. Dubrule, the co-chairman of French hotel giant Accor, lost the speed trial and a mountain run. But his regimen of riding 30 or 40 miles almost daily paid off when he won the third event, an endurance race.

Like Dubrule, Accor has turned in a strong performance over the long haul. Recently, many big U.S. hotel chains, including Marriott, Holiday Inns, and Ramada, have had a bumpy ride. But ever since Dubrule and his partner, Co-Chairman Gérard Pélisson, built their first American-style motel on a French roadside back in 1967, Accor's sales and profits have risen as steadily as Greg LeMond climbing the Alps.

BUDGET BINGE. Now, Accor has made its first big move into the U.S. In July, it agreed to pay $1.3 billion for budget chain Motel 6 Inc. The deal gives Accor a total of 157,000 rooms—the most of any hotel company in the world, not counting Holiday Inns' franchised network. Accor has plans to expand Motel 6 and hopes for further U.S. acquisitions. But the French hotelier is paying dearly to enter a market that has been plagued by overcapacity. Its earlier ventures in the U.S. have floundered.

Undaunted, Dubrule and Pélisson are setting out to build an American hotel empire in the image of their hugely successful European operation. They plan to triple Motel 6's growth rate, buying or building up to 100 motels a year for its 536-unit system. In a year or two, they would like to acquire a midrange U.S. motel chain similar to Novotel, their original venture and the biggest of Accor's nine European hotel brands. They're also planning transatlantic marketing to lure Europeans to Motel 6 and steer the U.S. chain's customers to Formule 1, a $23-a-night French chain Accor is cloning across Europe.

Accor is paying a hefty premium to enter the crowded U.S. market, however. Including the $1 billion in debt Accor assumed from seller Kohlberg Kravis R[o]erts & Co., Motel 6 cost $37,000 p[er] room, nearly 40% more than the indust[ry] rule of thumb. Dubrule says the bra[nd] name was worth the price. And ho[tel] expert Daniel Daniele of accounting fi[rm] Laventhol & Horwath believes the ro[om] glut is easing.

Skeptics aren't cheered by Acco[r]'s past American moves, though. Starti[ng] in 1979, it brought three of its Europe[an] chains to the U.S.: Novotel, the low[-] priced Ibis, and the upscale Sofitel. I[bis] was sold in the U.S., while the oth[er] chains operate at a loss. "We moved [too] slowly, and competitors filled the m[ar]ket," says Dubrule. Accor also gave [up] on a chain of California eateries, S[mart] food Broiler. But Accor's co-chairm[en] are trying again, because the U.S. [still] offers room for expansion. "We can't j[ust] keep building Novotels in Europe for[ev]er," says Pélisson.

Many analysts think Accor will [not] make it. KKR, which acquired Motel 6 [in] a 1985 buyout, turned the lacklus[ter] chain into a strong earner with a s[trong] brand image, thanks in part to a quir[ky] radio ad campaign. Its 47% operati[ng] margins are bet[ter] than the budget-m[otel] average of 45%.

Accor's co-cha[irmen] think they c[an] boost Motel 6 pr[ofits] its with a dose [of] French high techn[o]logy. Formule 1 c[uts] labor to the bo[ne]. Clients rent roo[ms] and get keys by i[n]serting a credit c[ard] in a machine. N[o]

ACCOR'S MIX

	1989 revenues Millions of dollars
HOTELS Includes Sofitel, Formule 1	$1,858
INSTITUTIONAL CATERING Serves schools, airlines, others	984
COMMERCIAL RESTAURANTS Mainly European highway chains, wine bars	456
OTHER SERVICES Includes Jacques Borel service vouchers	502

DATA: COMPANY REPORTS

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SAMSUNG

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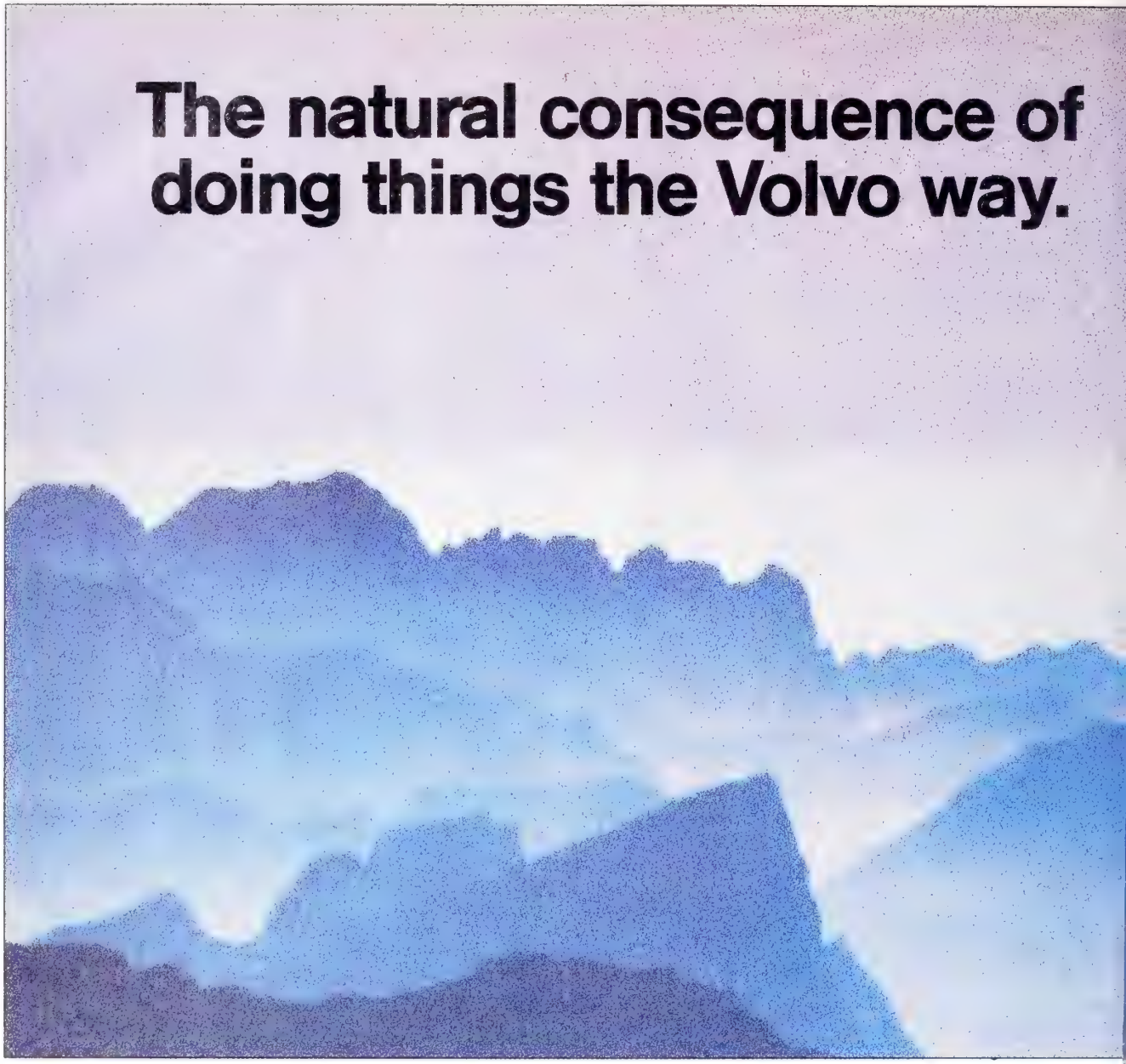

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VOLVO: 79,000 employees worldwide. Sales US $ 15 billion. Our core business areas are cars, trucks and public transport, marine and industrial engines, and aerospace. The group also has substantial interests in construction equipment, food and pharmaceutical industries. Our position as a major international group with large-scale operations in Europe and North America is a result of quality, safety, high ethical standards and showing care for people and the environment.

VOLVO

zles and heating elements spray and dry bathrooms automatically after each use.

For Pélisson and Dubrule, success in the U. S. would be especially sweet. Both are Americanophiles who worked for U. S. companies—Dubrule for NCR Corp. and Pélisson for IBM. Noting that car travel was booming in France in the 1960s but hotels were in city centers, Dubrule decided to copy Holiday Inns' highway units. He met Pélisson, head of market research at IBM-Europe. His IBM pedigree won them a bank loan for their first Novotel. As Pélisson lined up cash for more Novotels, Dubrule ran them.

Finance and operations are still their relative strengths. But by now, "we are interchangeable," says Pélisson, 58. At meetings, they often speak in alternating sentences. The partners have built an American-style service culture. They visited training schools at Disneyland and McDonald's Corp., then opened "Accor Academy" near Paris in 1985. There, 44,000 employees have studied phone etiquette and played team-building games.

Accor owes much of its success to good timing. In a virgin European market for highway lodging, Accor moved first. But outsiders also credit the co-chairmen's immersion in the details of the business. "They're very strong in operations," says Joseph Doyle, an analyst with Smith Barney, Harris Upham & Co. "Other hotel companies are too deal-oriented." Not that the two won't do deals. They acquired restaurateur Jacques Borel in 1983. Two years ago, they were outbid for Hilton International Co. Last year, they tried unsuccessfully to merge with Club Méditerranée.

STILL BUYING. The co-chairmen are looking for more hostel acquisitions. Jointly with Accor's biggest shareholder, Compagnie Financière de Suez, they recently bought a 25% stake in Wagons-Lits, owner of two European hotel chains. Financing such moves has been easy. Sales have doubled in the past five years, to $3.8 billion, while profits have quadrupled, to $115 million. Steady growth has let Dubrule and Pélisson sell equity, including a $340 million issue in January. And they'll resell a 60% stake of Motel 6 to French institutional investors. Accor's stock has fallen 30%, to 133, since the deal was announced—but that's still triple its level six years ago.

Accor's fast growth will continue, say the co-chairmen. In 1983, Accor said earnings per share would grow by 12%, excluding inflation, for six years. They did—and will continue to do so for the next three or four years, predicts Dubrule. Then, he says, the rate may slow slightly as some of Accor's chains mature. But after racing the business equivalent of the Tour de France, the co-chairmen may deserve to coast a while.

By Stewart Toy in Paris

Economics

EMPLOYMENT

THIS TIME, THE DOWNTURN IS DRESSED IN PINSTRIPES

Managers and professionals are being laid off in droves

The breadlines of the Great Depression, the gas lines of the 1970s, the shuttered factories of the early 1980s. These pictures all are burned into the national consciousness. The downturn of 1990 is not yet officially a recession, but it, too, is likely to leave behind a legacy: empty briefcases, vacant desks, and abandoned word processors.

Each day brings news of yet another company cutting its corporate staff in an attempt to restore flagging profits. Whether the move is phrased politely as a voluntary retirement program or more starkly as a layoff, managers, engineers, and professionals of all varieties are finding themselves out in the street. Individually, the numbers seem small—perhaps 50 or 100 at a time, nothing next to the drama of a large auto plant shutdown. But these small nicks and cuts are adding up. Since August, 1989, the number of unemployed workers has jumped by 485,000, and 65% of them are managers, professionals, and the clerical workers who work for them (chart). If the U. S. is in a recession, as many economists believe, it's one that is wearing a white collar.

Generous severance and early retirement packages have so far cushioned the overall economic impact of white-collar layoffs. With companies offering as much as two years' severance pay, out-of-work managers and professionals have not had to cut down on spending that much.

But the payments are getting slimmer, and each new wave of white-collar layoffs is causing more pain. The size of the average severance package for job seekers in financial services shrank from 22 weeks in 1989 to 18 weeks in 1990, reports Virginia M. Lord, senior vice president at Right Associates, a Philadelphia-based outplacement firm. And when Digital Equipment Corp. eliminated 3,000 jobs in a voluntary severance program last year, it offered a minimum of 40 weeks' pay. Now, it's trying to cut 6,000 more jobs—but the minimum severance payment for low-seniority workers has been slashed to only 13 weeks.

And severance pay can't keep the economy afloat forever. Once it runs out, the impact of eliminating all these high-paid jobs could be devastating. "America still pictures itself walking

rk with a black lunch bucket," says or consultant Dan Lacey, but there almost as many managers and prosionals as blue-collar workers. And :e on average they earn about 50% re than their blue-collar counterparts, ge-scale white-collar unemployment ld put an enormous damper on conption, drive depressed real estate rkets even further down, and send economy into a tailspin.

'TERED DEFENSE. The cuts to date are ressive enough. So far in 1990, comies have announced about 170,000 in manent white-collar staff cuts, acding to Lacey. New announcements coming at twice the rate they did year, and they're not just restricted single part of the economy. "It's in sectors and all industries," says Wil- J. Morin, chief executive of New k-based Drake Beam Morin Inc., the ntry's largest outplacement firm. the computer industry, in addition DEC's cutbacks, Data General Corp. announced work force reductions tong 2,000 workers, mainly white-collar loyees. Defense contractors such as Donnell Douglas Corp. and General

namics Corp., reeling from Pentagon backs, are pruning engineers, project nagers, and administrative support—bite the invasion into Kuwait. Weak estate markets are dragging down ks and real estate companies across country. And retailers such as rper Image Corp., a well-known pur- or of high-tech toys and gadgets, are ng management ranks in the face of kening consumer demand.

bout the only people adding jobs are placement consulting firms, an industhat barely existed five years ago. se firms, which help executives and managers find new jobs, will take in more than $500 million in revenues in 1990, according to one estimate—up from $300 million in 1988.

Even with all this professional assistance, it's taking longer for out-of-work executives to find a new position. On average, job-hunters are searching a month longer this year than in 1989, reports Drake Beam Morin. And when they do land a job, the new position is often with a smaller firm paying less money. About 38% of the clients at Drake Beam Morin are having to accept a lower salary at their new job. "These people are working their way down the career ladder," says Lacey.

Not surprisingly, the unemployment rate for managers and professionals has risen to near-recession levels. In August, it hit 2.6%—close to the 3.3% rate recorded in 1982, at the bottom of the last downturn. While this still may seem low, the number hides much of the real job loss for these highly paid workers. It's common, for example, for out-of-work managers and professionals to hang out their own shingle as consultants. Right Associates found that over 15% of a sample of recent clients ended up self-employed. But these budding entrepreneurs are not counted as unemployed, even if their new business brings in next to nothing.

Some laid-off white-collar workers are settling for part-time work. The Bureau of Labor Statistics reports that about 10% of managers and professionals work part-time, and that number may be rising. Fidelity Investments, for example, started hiring professionals part-time about six months ago. Some are the victims of layoffs, and many are looking for a way to get into Fidelity full-time. "We've started to see an increase in the number of professionals coming to us," says Lawrence Hayden, vice-president of staffing. "It's not like we've gone and sought them out."

NEW INSECURITY. More white-collar layoffs seem inevitable soon. The troubled banking industry, which now employs almost 2 million people, is especially vulnerable. "The only place banks can control their destiny is staffing," says banking analyst George M. Salem of Prudential-Bache Securities Inc.—which leads him to expect more staff reductions. Retailing will also be hit hard: Sears, Roebuck & Co., which employs 525,000 people, could eliminate 2,000 corporate staffers by the end of the year, with possibly more to come. And Chevron Corp., facing pressure to improve its financial performance, is going through with plans to cut 800 white-collar employees, even as oil prices rise.

This insecurity is something new for managers and professionals. Indeed, the great white-collar job machine rolled right through the 1980s without a stop. Import competition, merger mania, and even the much-vaunted demise of middle management couldn't slow it down. True, corporate restructuring often sliced white-collar jobs at one company, but there were always more new jobs somewhere else.

The result: From 1983 to 1989, the number of managers and professionals grew every year, rising 29% in all. This far exceeded the overall job growth of 16% for this period. Even during the steep 1980-82 recession, when employment of factory and other blue-collar workers was plummeting, the economy added 100,000 new jobs for well-educated white-collar workers.

But now, the tables have been turned. While managers and professionals are losing their jobs, blue-collar workers are escaping practically unscathed. With the exception of construction workers, the blue-collar unemployment rate has scarcely risen over the past year. One reason is exports, which are still providing manufacturers with a burgeoning market. And many of the most vulnerable factory workers already lost their jobs in the 1980s, leaving fewer to squeeze now.

> 'After companies have pulled the trigger the first time, it gets easier the third or fifth time around'

For companies looking to trim costs, then, managers and professionals make a much more tempting target. And cuts in corporate staff made earlier in the Eighties may have just whetted their appetite. "After companies have pulled the trigger the first time, it gets easier the third or fifth time around," notes Fred K. Foulkes, a management professor at Boston University. Companies that used to try to hold on to corporate staff now realize they can be cut just as easily as production workers.

Ironically, as U.S. companies try to reduce costs and improve profitability by cutting their white-collar work forces, they may be doing themselves a lot of damage. In the 1980s, companies responded to overseas competition by urging their managers to focus on long-term corporate goals. Now, many of these same managers are out of a job—and for the ones who remain, it's hard to think about next year when they're worrying about whether they'll have a job next week.

By Michael J. Mandel in New York, with bureau reports

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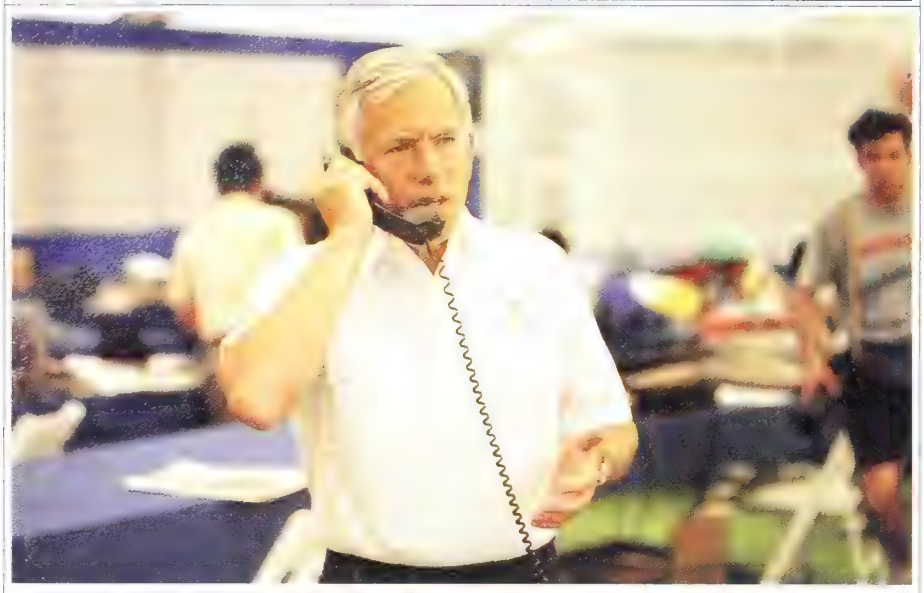

BLUE: HE UPPED PURSES BY $4.1 MILLION BUT ALIENATED LONGTIME CORPORATE SPONSORS

GOLF: THE LADIES TOUR SLICES INTO THE ROUGH

After just 18 months, the LPGA commissioner is out. Here's why

Few professional sports organizations have more potential than the Ladies Professional Golf Assn. tour. Golf is booming among affluent young women, and sports marketing is exploding. Even so, the LPGA keeps falling short of the green.

Now, the LPGA is facing a leadership crisis. During an emergency meeting over Labor Day weekend, Commissioner William A. Blue, who had angered corporate sponsors, agreed to step down less than two years into a five-year contract. The LPGA board hopes to name a successor by January.

Blue's departure is especially disappointing because he was hired, in late 1988, following an exhaustive search. The LPGA board concluded that Blue's consumer-marketing background—most recently at the Kahlua Group of liquors—made him an ideal candidate to add some sizzle to the tour. "But as it turned out, the criteria we used were wrong," says board member N. P. Crockett, retired managing partner of Ernst & Whinney's Chicago office. "He was at a great disadvantage," says Betsy Rawls, president of the LPGA Tournament Sponsors Assn. "He didn't know much about the world of golf."

Blue was hell-bent on expansion and achieved some notable successes, including boosting total prize money to $17.1 million this year, up from $13 million in 1989. But though the ladies tour has been growing, it has always trailed the PGA Tour, which offers purses three times larger than the LPGA's. Even worse, the LPGA, long the No. 2 game in golf, recently has been elbowed aside by the Senior PGA Tour, which features Jack Nicklaus, Arnold Palmer, and other male golfing greats over the age of 50. The LPGA also suffers from low exposure on broadcast television and a paucity of big stars who could draw sponsors eager to play a round with a top golfer at a pro-am tournament.

POOR SCHEDULING. Getting the tour out of those sand traps would have been tough enough, but Blue landed himself in deep rough with longtime corporate sponsors. "He antagonized many of them," says Rawls. In one instance, Blue alienated Oldsmobile, which sponsors a tournament near Fort Lauderdale, Fla., by scheduling the next stop on the tour at a course nearby. "I never knew about it until it was announced in the papers," says Craig Perna, president of the Oldsmobile LPGA Classic. "It was handled very poorly."

Blue also mishandled one of the LPGA's most promising new events "skins" game, in which prize mo goes to the winner of each hole. first women's skins game, held last morial Day weekend, was telecast NBC, sponsored by J. C. Penney Co., earned more than $300,000 for char "This exposure is exactly what the L needs," says Hughes Norton, a se vice-president at International Mana ment Group, which organized the ev

Nevertheless, the skins game had be canceled for next year because B was unable to resolve a scheduling c flict with another tournament. "We h dealt with every golf governing body the world," says Norton, "and we never had as many frustrations as had with Blue." Blue declined to c ment for this article.

The crisis of confidence came t head in late August, when Blue and board "mutually agreed" that he sho leave, says Crockett. He adds that LPGA will probably have to buy out rest of Blue's $250,000-per-year contr With Blue gone, a search commit headed by Mary Jo Jacobi, a board m ber and former senior vice-president Drexel Burnham Lambert Inc., is sift through a "huge number of candidate

UNTAPPED TV. For all the turmoil, next commissioner will inherit an ou with a lot going for it. More major porations—including McDonald's, C tel, and RJR Nabisco—are conclud that the LPGA is an ideal vehicle reaching the upscale women who make up 40% of beginning golfer many of them ambitious professio eager to use golf to advance their reers. "About 50% of Mazda owners women," explains Jan Thompson, v president for marketing at Mazda tors of America, which this year mo the Mazda LPGA Championship to Washington area because "it has highest concentration of professio women in the country."

The toughest job will be to incre the LPGA's television exposure. Altho 20 LPGA tournaments received some coverage this year, only five were one of the big three networks, compa with 37 for the regular PGA Tour. even when the LPGA is on the ai tends to post low ratings. As a re while the PGA Tour earned $33 mi from TV in 1989, the LPGA earned than $1 million.

The LPGA will never catch the Tour, but it can almost certainly do better than it has. "It has been un marketed for years," says Maz Thompson. Now, if it can just find so body who won't tee off the sponsor

By William C. Symonds in De

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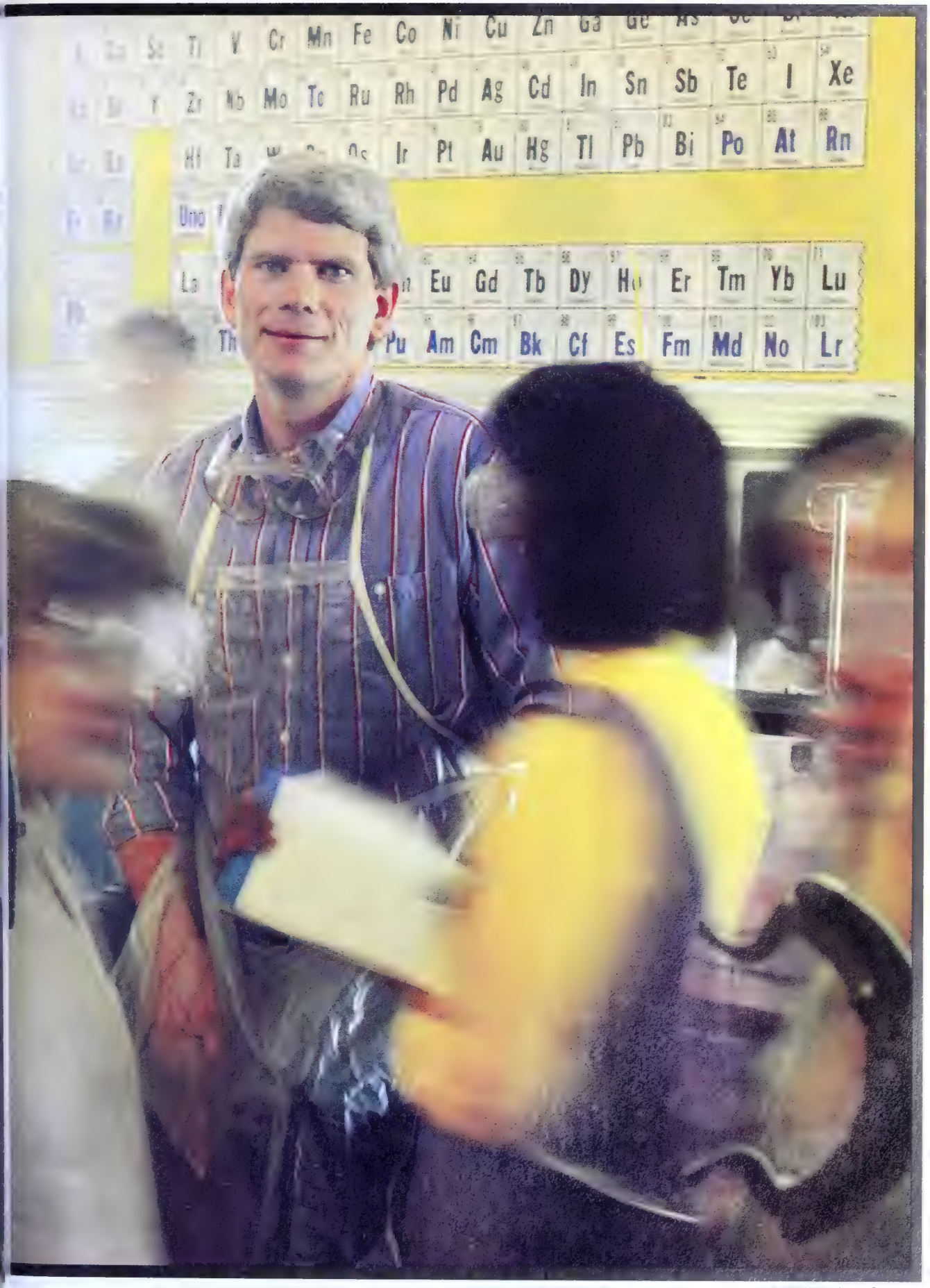


Marietta Corporation

500 DAYS

Massing by the concrete columns of Gorky Park, they marched into the wet gloom of a September night across the Krimsky Bridge toward the Kremlin. By Moscow standards, it wasn't a big demonstration. Many more have taken to the streets this year to support democracy. But the crowd's message was urgent: Scrap entirely the economic system that propelled a huge agrarian nation into the Industrial Age but now is so ossified it can't even bake enough bread.

It was unmistakably a capitalist rally. Posters lauded the so-called "500-Day Plan," a blueprint for the nearly complete changeover of Soviet central planning to a free market by April, 1992. "The people here see that the 500-day program is for real people and not the government," said Mikhail Y. Obodovsky, a 21-year-old student at the Moscow Aviation Institute, braving a steady rain to watch the parade. "It will let everyone who wants to work, work and earn money for their work."

Yeltsin: He embraced the proposal Gorbachev waffled on

LENIN TOPPLES. The program would do far more than that. It's the most radical economic reform in seven decades, a broadside that would reverberate through every facet of Soviet society. It also may be the last chance the country has to sidestep economic collapse and perhaps even civil war. Hardly a day passes without another sign of desperation. More than 1,000 factories have shut because they lack raw materials. Near the Kremlin, tent cities have been set up to

MUSCOVY HOMELESS DEMONSTRATION: TENT CITIES HAVE SPRUNG UP NEAR THE KREMLIN TO PROTEST THE PROBLEM

THE SOVIET UNION RUNS FULL TILT WARD A MARKET ECONOMY, POVERTY D UNREST ARE SURE TO INCREASE. ES ECONOMIC REFORM STAND A CHANCE?

protest the growing problem of poverty and homelessness—conditions that communism promised to eradicate. Paramilitary groups are on patrol in Armenia, and guerrillas from rival nationalist factions are skirmishing in Georgia. In the Ukraine, demonstrators have toppled 16 statues of Lenin.

If the plan is implemented nationwide, factories managers long accustomed to taking orders from the top will be forced to find customers for their wares. Workers used to featherbedding and boondoggling will have to produce or lose their jobs. A massive sell-off of state property starting by yearend could deal a final blow to the bureaucracy of central planning created by Joseph Stalin. An emergency program to strengthen the ruble could prevent the Soviet Union's disintegration into a loose collection of 15 restive republics with their own currencies and trade barriers. At the same time, the republics would assume broad new powers to set their own economic policies and control their own resources.

Gorbachev: No choice but to join hands with his old political foe

What's more, budgets for foreign aid, the military, and the KGB would be slashed drastically. Central military power would remain in Moscow, as would the elite Defense Council, which controls the Soviet nuclear arsenal. Much broader need for Western investment, aid, and trade could wed the long-isolated Soviet Union to the world economy much faster than anyone

dreamed (page 145). Quick steps toward making the ruble convertible against other currencies could ease the opening of a new market of nearly 300 million consumers.

The 500-Day Plan also lies at the center of one of the key rivalries in world politics today—between Soviet President Mikhail Gorbachev and Boris N. Yeltsin, president of the Russian republic. Their relationship will determine the future shape of not just the Soviet economy, but also the future of the Soviet Union as a nation.

Both men agreed in late July that the economy was deteriorating so rapidly that they had to stop their sparring. They put together a team of radical economists headed by Grigori A. Yavlinsky, a Yeltsin economic aide, and Stanislav Shatalin, a Gorbachev adviser and radical champion of the free market.

NATIONAL REFERENDUM. Their 500-Day Plan was nearly unanimously approved on Sept. 11 by the Parliament of the Russian republic. But Gorbachev has trouble accepting some of the plan's most dramatic ideological breaks with the past, such as decollectivizing farming and turning state land over to peasants for private farms. Even though he backs the plan in principle, he has presented a watered-down version of it that attempts to keep more elements of Moscow's central authority. Then, on Sept. 17, he took a step backward and called for a time-consuming national referendum on whether to allow private property. The economy can only become even more chaotic if the national legislature adopts a version significantly different from the Russian one.

But Yeltsin, who leads half the Soviet Union's people and commands most of its resources—may now have the winning hand. He vows Russia will stick with the 500-Day Plan no matter what the other 14 republics and the national Supreme Soviet decide. One key test will be over tax policy. Yeltsin's radicals want the republics to collect taxes and divvy them up with the central government. But Gorbachev wants tax control to remain in Moscow, with payments to the republics. If Yeltsin wins, the Kremlin could become a diminished central authority for the entire nation.

Yeltsin's ability to force critical decisions means he's now setting the agenda on Soviet domestic affairs. That's a switch for the pugnacious former boxer who only a year ago claimed that would-be assassins had thrown him in the Moscow River. Today, Yeltsin's overwhelming popularity among the Soviet people leaves Gorbachev in the shadows. "I am absolutely sure that [Gorbachev's] political fate is resting on Yeltsin's policy," says Alexander Drozdov, a former editor of the *Komsomolskaya Pravda* newspaper.

Indeed, Russia's 500-Day Plan was drawn up by economists who defected from Gorbachev's team to Yeltsin's. Yavlinsky, for one, was an obscure labor specialist with the State Commission on Economic Reform last February when he wrote a script to make the Soviet Union a market economy faster than ever dreamed. He sent it to Deputy Prime Minister Leonid Abalkin, head of economic-reform planning in the Gorbachev government. When Abalkin rejected it, Yavlinksy turned to Yeltsin, who liked what he saw.

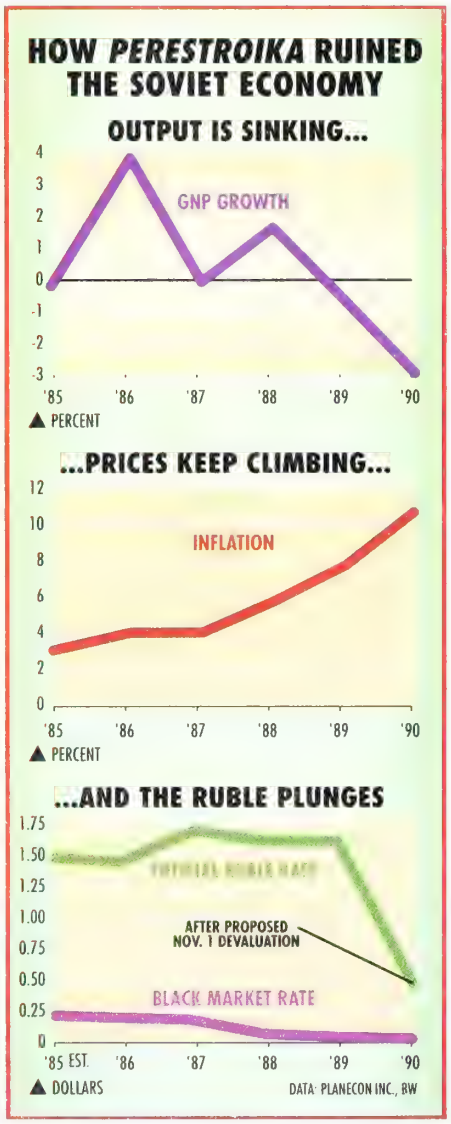
At the time, Yeltsin was about to stage a political comeback. He was preparing his campaign in the first multicandidate elections ever for the presidency of the Russian republic. In 1987, he had been humiliated by being forced out of the ruling Communist Party Politburo for complaining about the slow pace of reform and clashing with Gorbachev over the Soviet leader's growing personal power. When Yeltsin won the Russian presidency in June, he quickly made Yavlinsky his top economic brain truster.

Then, in July, competition between Yeltsin and Gorbachev reached a boiling poi Spats erupted between Moscow and the public over the control of banks, oil dep its, and gold reserves, while shortag spread even to such basics as tomat and onions. Gorbachev and Yeltsin op for cooperation and sent a team of mos younger economists to the wooded se sion of a government dacha in the histo Moscow suburb of Archangelsko Throughout August, the team of 13 eco mists, including Yavlinsky and Gorbach advisers Shatalin and Nikolai Petrak worked day and night, breaking twice meet with Yeltsin and three times w Gorbachev. The group persuaded the So et president to go along with the radi 500-Day Plan at one watershed, six-h Kremlin session. Says Boris Fyodorov, Russian republic's 32-year-old minister finance: "Very informal people with ties and with beards went to the Krem for the first time in their lives. We spo in plain terms and explained that Mr. Ab kin is ignorant of economics."

The key element of their plan, finish on Aug. 28, is strengthening the ne worthless ruble. Though its official change rate now is $1.67, the ruble tanked so badly over the past two ye that it trades for as little as 4¢ on the bla market. Unless it can be shored up, the viet economy will lose the use of its o money. Trade among factories already devolved into an almost feudal barter system. The crisis is igniting moveme for independence or sovereignty in alm every republic, hastening the breakup the Soviet Union.

STUFFED MATTRESSES. According to plan, the Soviet Union will transform banking system into a U. S.-style Fede Reserve system comprising 15 republic serve banks that would jointly determ monetary policy. That policy is almost tain to tighten the supply of money, e ing the Gorbachev practice of printing many rubles that the Soviet treasury running out of ink. Meanwhile, the gov ment would try to slash its 170 billion ble budget deficit by cutting foreign aid as much as 75%, slashing the KGB bud by 20%, and squeezing health and edu tion programs. Economists estimate t the sell-offs could sop up 30 billion rub about 10% of the potentially inflation overhang of 300 billion rubles stuffed Soviet mattresses.

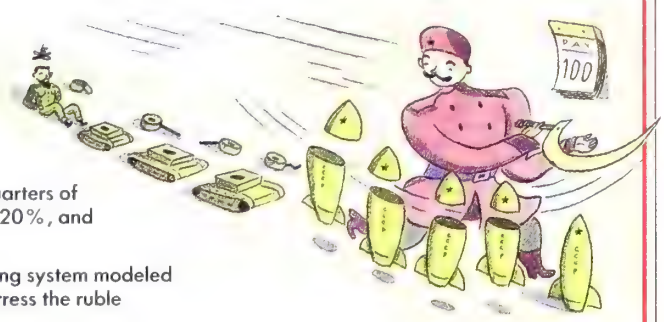
The plan also calls for bringing the ble's worth closer in line with reality. Nov. 1, Gorbachev would have it deval to 50¢, about two-thirds of its present cial worth. Further devaluations w likely follow over the next year as currency auctions and currency-trad outlets would be set up all over the co try. Through this process, the ruble w become convertible internally, and er

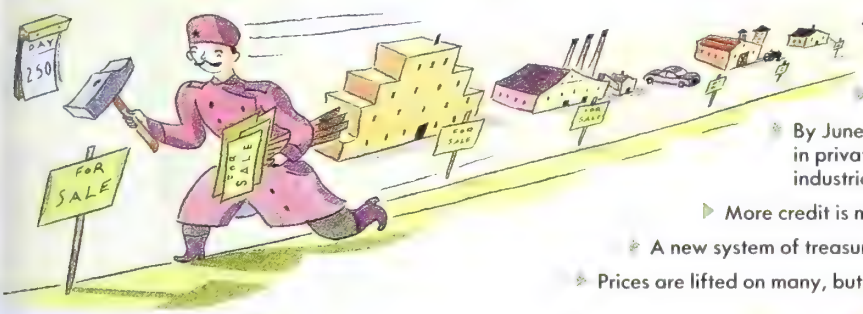


THE TIMETABLE FOR ECONOMIC REFORM—IF EVERYTHING WORKS

THE FIRST 100 DAYS

- Officials prepare an inventory of state property to begin a massive sell-off of everything from KGB Chaika sedans to unfinished construction projects
- Collective farms and state lands are broken up into individual plots to be auctioned off to farmworkers
- Sell-offs of state companies begin
- To reduce the central government's huge deficit, Moscow cuts three-quarters of foreign aid to client states such as Cuba, slashes the KGB's budget by 20%, and trims defense spending by 10%
- Devaluation on Nov. 1 reduces the ruble's value substantially. A banking system modeled on the U.S. Federal Reserve is launched to ensure tight money and buttress the ruble



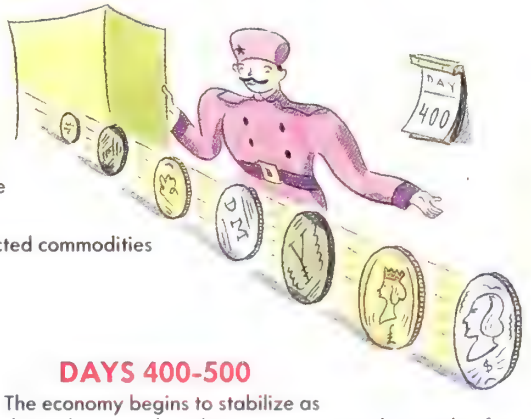


DAYS 100-250

- Privatization speeds up
- By June, 1991, half of all restaurants and shops are in private hands, and the sale of the nation's largest industries begins
- More credit is made available to individuals
- A new system of treasury bills is introduced to finance the budget deficit
- Prices are lifted on many, but not all, consumer goods

DAYS 250-400

- The ruble debuts as a hard currency, but convertibility is allowed only within Soviet borders
- Soviet privatization continues with 40% of Soviet industry held by individual shareholders, worker groups, and foreigners
- Two-thirds of the service sector, from auto repair to barber shops, is in private hands with market-driven prices
- Price controls remain only on some food items, oil, gas, drugs, and other selected commodities
- As factories close and prices rise, social unrest increases



DAYS 400-500

- The economy begins to stabilize as deregulation and market prices increase the supply of goods
- New banking system is complete, and a foreign-exchange market shifts into high gear, but the ruble is not yet fully convertible
- Some 70% of industry and 90% of retail trade and construction are now privately owned
- Longtime restrictions on migration within the Soviet Union are loosened so unemployed workers can travel to find new jobs

ses could freely sell rubles for dollars Deutschemarks. By the end of 1991, the hange rate should be set by the inter- market, not by the government, says vlinsky. Sometime next year, Soviet citi- is would likely be given the right to buy d currency freely, too. New customs ulations will even allow Soviets to shop catalog from the West.

DING 'DOLLARIZATION.' If these steps 't shore up the ruble, some tougher asures could be put in action, at least the Russian republic. It may prohibit ps and services from selling goods for thing other than rubles. Such a stringent measure would wreak havoc on the hundreds of joint-venture shops and cooperatives that have sprung up over the past three years and are accepting foreign currency only. But, says Russian republic Finance Minister Fyodorov: "We must stop the dollarization of the economy, which weakens the ruble."

Meanwhile, Russia is already working on its own privatization law and methods for handling its sell-off, scheduled to start Oct. 1. While rich individuals and extremely successful black marketeers have large stashes of cash, individual Russians actually don't have big savings—the average bank account is about 500 rubles. So state assets are likely to be priced low enough that people can afford to buy. Military trucks worth 70,000 rubles that were sent to farms to help with this year's harvest may be sold for as little as 15,000 rubles each. Shares in stores and enterprises may be sold to their workers for symbolic sums. "It will be a gift for the risk that the workers are going to take," Yavlinsky says.

If the privatization program works, it will finally set thousands of Soviet factories free from central planning and force them to sink or swim financially. The pres-

MICHAEL KLEIN

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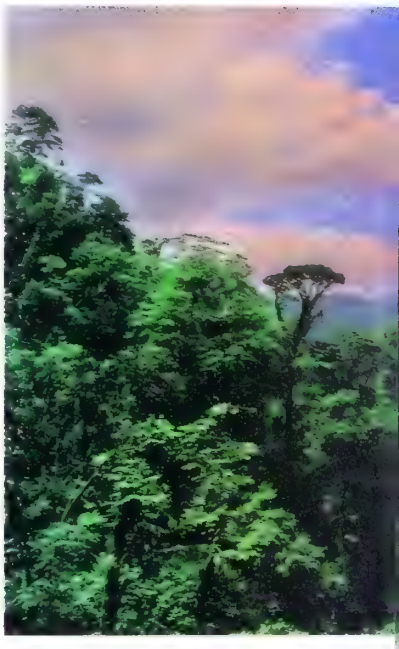

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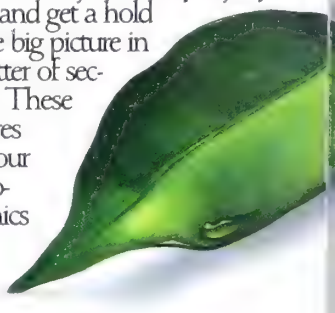

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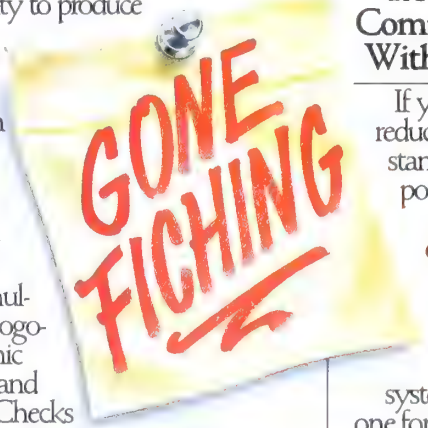

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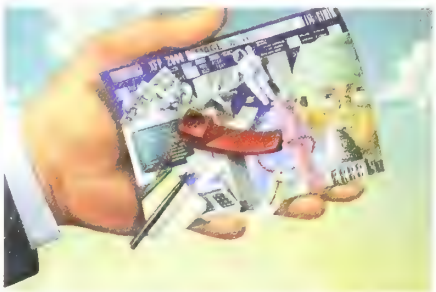

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2 RMS/KREMLIN VIEW Now a gray market, this wall of apartment swaps and sales will be fully legal after the Moscow city fathers begin privatizing urban real estate

EYES ON A PRIZE Many Soviet citizens can only dream of owning a car such as this vintage Chaika sedan. Will reform bring more autos within people's reach?

sure will increase heavily in January, 1991, when the plan calls for slashing state subsidies. Already, however, factory directors and other Soviet managers are casting doubts on the sell-off. "The program will not work because it is not concrete enough. It tells what to do but not how to do it," says Artem Tarasov, director of Istok, a leading import-export cooperative.

There's also no guarantee that cooperatives or newly independent factories, stores, and restaurants will be able to get raw materials still controlled by vestiges of the central-planning system. Andrei A. Fedorov, who founded Kropotkinskaya 36, the nation's first cooperative, or privately owned, restaurant in 1987, sees big problems with supplies. "They say the existing structures will remain for the time being to distribute goods for private businesses. When I hear that, I see corruption."

To prepare its privatization drive, the city council of Moscow, which also serves as capital of the Russian republic, is taking inventories of state-owned properties. But no one knows how to start. "You want to open a restaurant?" Fedorov asks. "Where would you go to buy a sugar bowl, an ashtray, linens, food?"

Potential investors also worry that their properties could be taken back by the government, depriving them of their investment if reform fails. Besides that, many are skeptical of the control they'll have if they buy shares of a factory or farm. Workers and management at the Vladimir Tractor Factory, 120 miles east of Moscow, are beginning to work out how to turn the enterprise into a joint-stock company. But how? "It is not clear to me what new rights collective owners will get in a factory," says Deputy Director Yuri V. Kiselov. What's more, he thinks the Auto & Agricultural Machinery Ministry, facing possible dissolution under the 500-D Plan, will turn itself into a private "co cern," buy 51% of the shares, and th maintain effective control over operation

Indeed, the same ministry has alrea begun similar buyouts. Kamaz, a tru making amalgamation of 13 factories a 140,000 workers around the nation, pla to issue stock and sell 49% of its shares the Soviet public and foreigners. Yet controlling 51% of the stock will be tained by the auto ministry. And, wh Kamaz workers were offered stock earl this year, they bought a tiny 6.7% of t available shares.

LIMITED EXPERIENCE. While this may sh just how little faith Soviet workers have privatization, the Kamaz deal points another unresolved problem: figuring h to value assets. Soviet accountants are t ing to price the net assets of the Kam works before a public stock offering c be made. But their knowledge of how do it is limited.

Meanwhile, privatizing may only crea giant monopolies able to dictate prices ju as easily as Moscow used to. The massi Medical Industry Ministry, sole maker many types of health care equipment, cently proposed that it turn itself into a ant corporation. In response, the Russi government plans to launch an antimo poly campaign. "We have to eliminate t artificial companies that are created protect the ministries," vows Sergei Krasavchenko, chairman of the Russi parliament's Commission on Economic R form & Ownership.

To do that, he wants most ministr abolished. Failing that, he would have t Russian republic pass laws to encoura entrepreneurship and liberalize repub tariffs to bust up monopolies with s foreign competition. Third World-style lective tariffs will be used if foreign pr ucts pour into the market and slaughter cal industries.

Yet there won't be much protection thousands of factories that can't mak without subsidies and steady orders fr state ministries. Soviet Prime Minister kolai I. Ryzhkov, who says he'll resign the national parliament adopts the 5 Day Plan, claims one-quarter of the sta 40,000 collective farms would go bankr National income could plummet by 3 and unemployment could rise to 40 milli But such estimates are mostly meani less. Says Gorbachev's personal econo adviser Petrakov: "There are too many known factors. If a few thousand bure crats lose their jobs, it will be their pers al tragedy."

For good managers, price reform m prove to be a saving grace. Both the G bachev and Yeltsin versions of the 5 Day Plan agree that state price cont should be freed up slowly for most wh

e and retail goods. Starting in January, ces for luxury goods such as cosmetics l expensive furniture would be the first be set by the market. Prices on 80% of er consumer goods and services would liberalized over the course of next year. By April, 1992, retail price controls uld remain only on such staples as at, milk, and bread. Wholesale price trols would remain mainly on goods such as oil, strategic metals, and steel. Freeing prices will make it easier for factories to survive without state subsidies. But it will also hit individuals hard. Some 116 million of the nation's 290 million citizens make less than 100 rubles a month, while the average salary is just 250 rubles. That's the price of 10 packs of American cigarettes on the black market. About 43 million people, mostly retirees, are on low fixed incomes, scraping by on extremely cheap rents and subsidized food prices.

Indexing is seen as the only way to protect the poor in both the Yeltsin and Gorbachev versions of reform. Both want to link wages to prices to keep pensioners, students, and other needy individuals from starving as prices rise. Yet many economists see indexing as a recipe for hyperinflation. Moreover, real planning to create

A GREAT PLACE TO INVEST—IF YOU DON'T MIND THE WAIT

On a trip to open the new Radisson hotel in Moscow, Juergen Bartels dined at a local four-ar restaurant. The president of Carl-n Hospitality Group, Radisson Hotels ternational Inc.'s parent company, ied three times to order dinner and as told each time that his selection asn't available. "Why don't you just ll me what you've got," a disgusted artels said, handing the menu back to e waiter.

For U. S. companies doing siness in the Soviet Union, oris N. Yeltsin's 500-Day an may be a lot like Bartels' enu: a tempting list of possilities with only a few actual within reach. Even the first eps toward reform have own foreign investors that e enormous market may not y off for a long time. Now, e radical program to sell off ate property, modernize ade rules, and make the ru-e convertible is likely to ake things worse before ey get better. "There will be lot of chaos," says William Burck, assistant general unsel for international busiss at Data General Corp.

IALL DEALS. Despite the wor-s, many companies have de-led the rewards are worth e wait. Most members of the -person Presidential trade legation that toured the So-et Union with U. S. Com-erce Secretary Robert Mos-cher came back encouraged. rtainly, they had to deal with local d republican governments that are w butting into trade negotiations. it they managed to strike a few nall deals. Archer Daniels Midland . reached a pact for local production its soybean-based veggie burgers, e Sea-Land Service Inc. division of X Corp. plans a $3 million investment Soviet transportation, and U. S. rint Communications Co. will provide ice, fax, and electronic-mail services from Moscow. "If we wait until all the risks are gone, the opportunities won't be here, either," explains Sea-Land Chairman Alex J. Mandl.

Getting a toehold is one thing, making money quite another. From Leningrad to Vladivostok, U. S. negotiators say they spend more time on arrangements to get their profits out than on the other details of their deals. Oil companies such as Chevron, Amoco, and ARCO that plan to help develop Soviet oil fields can take their payments in black gold. But most companies want cash, and Moscow hasn't made the ruble a hard currency.

BIG MAC IN MOSCOW: SETTING UP THE VENTURE TOOK 14 YEARS

Cash-poor Soviet trade offices have begun stiffing even longtime vendors, despite guarantees extended by Vneshekonombank, the Soviet Union's central bank for trade. The grain-buying agency, Exportkhleb, owes $70 million to major U. S. grain traders Cargill, Continental Grain, and Louis Dreyfus. USX Corp. recently scrubbed a major order from the Soviets because the Kremlin couldn't pay for it. And Dow-Elanco, a joint venture of Dow Chemical Co. and Eli Lilly & Co., is still trying to recoup a $7 million payment.

Another obstacle is figuring out who's in charge. In the bad old days, a trade minister in the capital could speak for the entire nation. Now, with the decision-making more decentralized, companies have to go to officials in the 15 republics to get information and approvals. "Just like in the U. S., they want to know what's in it for them," says Chief Financial Officer Karl M. von der Heyden of RJR Nabisco Inc., which is discussing food and tobacco projects in Kazakhstan.

LOCAL LEADERS. In some cases, decentralization is an obvious plus. Apple Computer Inc. now negotiates directly with the republics, eliminating conflicts between central buyers in Moscow and the local authorities. "If the local entities receive more freedom to deal directly with outside enterprises, I think it would have a very positive impact," says James W. Linn, senior vice-president of Tulsa-based Parker Drilling Co., which has encountered big Soviet delays.

All the obstacles mean that to succeed in prospecting for Soviet business requires patience and deep pockets. McDonald's Restaurants of Canada Ltd., which has a burger outlet on Moscow's Pushkin Square, spent 14 years setting up its joint venture and does business only in rubles. McDonald's says that it is more interested in building an image in the Soviet Union than sending profits back home. That sort of long-term strategy may be the only realistic approach to doing business in today's chaotic Soviet Union.

By David Greising in Chicago, with bureau reports

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safety nets such as indexing is just beginning. One solution, says Yavlinsky, is to attract foreign investment and aid to areas that will suffer the most. Regional development funds also would help.

HELP WANTED. Indeed, the Soviet Union can't plunge into a market economy without major financial help from the West. "But how can you give money to people who don't know how to use it?" asks Shatalin, co-author of the 500-Day Plan.

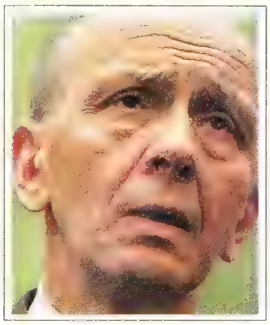
Under both the Russian and Gorbachevian versions of the plan, foreign companies will be granted the right to own 100% of Soviet enterprises. New agencies would be created to attract foreign investors and eventually help them buy stock in Soviet companies. Also, Yavlinsky is in favor of obtaining more foreign credits to buy Western food and consumer goods at "key moments" during the 500 days in order to contain inflation and flood the market with goods while prices are freed.

While such measures would boost the country's rapidly rising foreign debt, they may ease the pain a little. But there's no doubt that the latest Soviet reforms, even if they only work in part, will send an electrifying shock through the Russian heartland. Rising prices, unemployment, and bankruptcies could lead to strikes and riots that could cause the country to grind to a halt. Already, oil workers in Western Siberia are rene ing an earli threat to strike their working c ditions do not i prove. "I don't lieve in t program," says exander Pinchu the chairman of t oil workers tra union workers Nizhnevartovsk Adds Andrei K mov, a member the regional coun in the city of Per "Only the Lord w save us fr strikes."

Yet at rock bottom, the 500-Day Plan considered by many Soviet citizens to their best, if not their only, hope. "We looking for results," declares Alexan Pulunkin, a 35-year-old worker at a bui ing renovation company in Yaroslavl. course, we have fears that our living st dards will fall somewhat. But there is alternative."

By Rose Brady in Moscow and Peter luszka in New York, with Rosemarie Bo in Moscow and Igor Reichlin in Bonn

THE ARCHITECTS OF RUSSIA'S BIG MAKEOVER



SHATALIN Longtime foe of central planning and the go-slow approach of Prime Minister Ryzhkov

PETRAKOV Selection as Gorbachev's economic adviser was a bellwether of a market economy

YAVLINSKY Economist is a key Yeltsin adviser. His proposals sparked the 500-Day Plan

'WE CAN'T BELIEVE THAT THINGS WILL BE BETTER'

In most Western countries, Valery and Lena Husnulin and their three young children would be enjoying a comfortable life in a middle-class suburb. But as Soviet citizens, they're far from that. The Husnulins live in a one-room, communal flat overlooking downtown Moscow's Arbat Street and share a bathroom and a kitchen with another family. Their major possessions consist of three beds for the children, a convertible bed for themselves, a wooden table, a Soviet-made television, a couple of straight-back chairs, and a big box of toys. And like many other Soviets, they are pondering how their lives will change under Boris N. Yeltsin's new 500-Day Plan.

"It's Yeltsin's program, and it's interesting for us because we voted for Yeltsin," says Valery, an engineer. "But we can't believe that things will be better. Just the reverse: They will probably be worse. But if we can live through the difficulties, maybe it will be better for our children."

He and Lena know that the plan calls for price hikes. Valery hopes he'll be able to earn more money. Right now, he holds three jobs and barely gets by. During the day, he's a public-utilities engineer in Moscow, earning 230 rubles a month ($500 at the official rate, but about $9 on the black market). To double his salary, he works as a night watchman and weekends at a construction job.

But that's hardly enough for the Husnulins to dream about buying one of the apartments the Moscow city government plans to sell next month. "We'd like to buy," says Valery. "Bu we are limited. As much as I earn nov it's not enough." In fact, he worrie that the plan will ruin their chances f moving into a bigger apartment. The want to stay in the center of Mosco and have been on the list for a large place since 1986. But as the city will b following the free-market philosoph of the 500-Day Plan, rents will like go up and sales prices may be high.

'NO MEAT.' Lena, who spends sever hours a day queueing for scarce good can't count on the food shortage en ing, either. Lately there hasn been much to buy. "I dor know why it has become so ba in the last two months. N meat, no vegetables." Fort nately, her parents live in a v lage outside Moscow and pr vide the family with vegetabl and milk.

But even though the Husn lins don't know what to think plunging into a market econ my, their opinions on politicia are crystal clear. They're fed u with all of them except Yeltsi

By Rose Brady in Mosc

THE HUSNULINS AT HOME: A TABLE, A TV, AND A BOX OF TOYS

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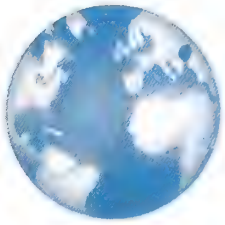

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NOW, BANKS FACE A CREDIT CRUNCH OF THEIR OWN

The credit markets have grown so wary that they're making banks pay dearly for funds

Traditionally, investors in the credit markets looked on banks as a sure thing. After all, commercial banks were supposed to be stable institutions with conservative policies. Long- and short-term bonds, commercial paper, and certificates of deposit issued by most commercial banks routinely received a warm reception. And Wall Street loved to underwrite bank debt. "It was as easy as taking a dog for a walk," says Jeffrey M. Peek, a managing director with Merrill Lynch Capital Markets.

Now, however, the nation's banking industry is reeling. And the credit markets are wary. Just as the stock market has pummeled many bank shares to 52-week lows, so has the bond market begun to punish bank debt issues. As loan portfolios at many banks deteriorate and recession prospects loom, lower credit ratings for banks have become commonplace. Investors are demanding stiff interest rates to make up for the added risk (chart). Says Peek: "You can't take any bank underwriting for granted anymore. The market is very different."

TOUGH LINE. And that difference is bound to exacerbate problems in the banking system. Under pressure from regulators to boost capital, many banks have been hard-pressed to salt away sparse profits to improve their capital cushion. Raising money through asset sales takes time. And given the negative view of bank shares, banks can't raise equity in the stock market. Paying higher yields for funds in the credit markets, however, will squeeze profits even further. Many are turning to fund-raising tactics such as bundling mortgage loans and credit-card receivables to be sold as securities, but there is a limited amount of assets the banks can press into service without spoiling the market.

The credit market's tougher line on banks was illustrated dramatically Sept. 11 by Chase Manhattan Corp., the nation's second-largest bank. Chase, whose credit rating was downgraded in June by both major rating agencies, had to reset interest rates on $200 million worth of notes issued three years ago. It was forced to raise the bonds' yield to 13.02% from 9.66%. That's 4.92 percentage points over the yield of two-year Treasury notes—just short of the five-point minimum spread allowed by the bonds' covenants. Says a high-ranking Chase official: "Market conditions couldn't have been worse." It wasn't much help that on the same day the General Accounting Office, Congress' watchdog agency, predicted that 35 large banks may fail or require an infusion of federal funds over the next year.

The situation is not as bad on the long-term debt front. Considered 10% bonds Chase issued three years ago. Then they yielded only 1.4 percentage points over comparable Treasuries. Now, the gap is up to 4.1 points—a situation that vexes many other banks (table). Concern over Chase's ability to raise money persisted. At one point on Sept. 11 Chase's stock fell by

CHASE'S LABRECQUE: CAN THE NEW CHAIRMAN REVIVE THE AILING BEHEMOTH?

ut 2, to just under 14 a share, on
ıors that the bank couldn't find a
er for its privately placed commer-
paper. Chase denied the reports.
hase's example, while extreme, is
risome to other banks facing similar
blems. Skepticism grows about the
k's ability to turn things around
le its loan portfolio worsens. Despite
old move at the end of last year's
d quarter to boost reserves against
loans and rid itself of troubled real
ıte loans, it is still hurting. In the
st quarter, profits tumbled 62%, to
million, after Chase boosted its re-
ves by an additional $75 million,
ely against bad real estate loans.

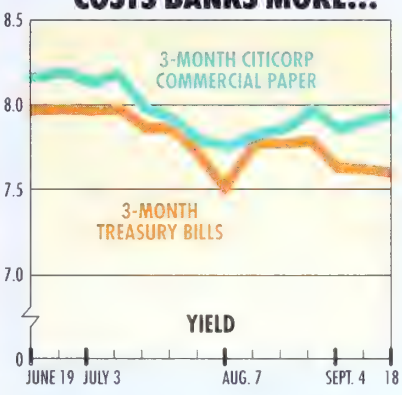
SERING ILLNESS. Few analysts expect improvement soon. Chase plans to ıce its work force by 7%, or 3,000 fers. James J. McDermott, director esearch at Keefe, Bruyette & Woods , reckons voluntary retirements and ffs could cost $250 million in the sec- half. On top of this, real estate mar- continue to slump. McDermott says combination of factors could produce ss in the current quarter.

ill new management help? Thomas abrecque, who has served as presi- t since 1981, will succeed Willard C. cher as chairman on Oct. 31. Al- ıgh Labrecque is credited with steer- the bank in the late 1970s into retail king, its most profitable business, lysts aren't sure the 52-year-old exec- e can pull off a rescue. "There are a of skeptical investors out there,")ermott says.

ne sign of the skepticism is a change ıe markets for deposits, the bedrock ank funding—Citi gets 60% of its ling from deposits. Deposits are still wing, albeit at a slower pace. But the ces of those deposits are changing. ıctant to pay the higher yields de- ıded by institutional investors, banks turning to individuals. Disturbingly, ks must use brokers to market these , much as savings and loans did n they began sliding into their cur- woes—although banks so far aren't ing the hefty rates that thrifts did.

ll this bad karma has left the invest- it community skittish. Arthur J. Pow- r., head of corporate credit research rudential Insurance Co., says bond ers are demanding that banks dis- e more information about their loan folios. Quarterly results, he argues, tell investors where problems al- ly occurred; there's little indication re problems will develop. Specifical- Powell says investors would like ks to identify projects in which they involved. The banks counter that this ates client confidentiality. In the end, banks will suffer. "If people really 't know about the portfolio, they as- ıe the worst," Powell says.

SHORT-TERM MONEY COSTS BANKS MORE...



...AND BUYERS SHUN LONG-TERM DEBT

Bank Issue date/Interest rate	Yield in excess of comparable Treasuries in percentage points	
	At issue	At recent price
BANK OF AMERICA July 1990/9.7%	1.30	1.55
BANKERS TRUST June 1990/9.5%	1.15	1.55
CHASE MANHATTAN June 1987/10%	1.49	4.10
CHEMICAL June 1987/9.75%	1.46	5.00
FIRST CHICAGO July 1990/9.9%	1.65	2.30

DATA: SALOMON BROTHERS INC., BW, MERRILL LYNCH & CO.

The likely result: Investors will demand still higher rates on bank debt. Aside from Chase, other money-center banks, such as Citicorp and Chemical Banking Corp., are the ones investors regard the most coolly. In a move that stunned the markets last May, Moody's Investors Service downgraded much of Citi's debt, including a drop in its commercial paper to the P2 rating that is the lowest many investors will buy. Investors are also leery of New Jersey's First Fidelity Bancorp. and Midlantic Banks Inc., as well as most New England banks.

Mighty Citicorp, the nation's largest bank holding company, has suspended its weekly commercial-paper auction. The short-term IOUs, issued in three- and six-month maturities, have been a crucial source of funds for Citi and a benchmark for credit markets for more than a decade. Citi has been turning to securitizing mortgages and credit-card receivables, reducing the need for publicly peddled commercial paper, which makes up just 2% of its funding, down from 4% two years ago. Citi also is relying more on private sales of its paper to pension funds and other investors. Citi officials depict the move away from publicly auctioned paper not as a forced retreat but an evolution. "We don't have as big a need to be in the public market now," says Nancy S. Newcomb, senior corporate officer for finance.

That's just as well. The Securities & Exchange Commission is proposing new rules that would sharply curtail money-market funds from buying commercial paper below top-tier quality. Money funds, whose $200 billion in short-term paper makes them among the largest holders, have 10% to 20% of it at the lowest permissible level of P2 or the equivalent. The SEC rule would drop that to 5%.

Only a handful of bank holding companies are still considered quality issuers, according to Marshall V. Davidson, head of the financial-services group at Kidder, Peabody & Co. At the head of the list is J. P. Morgan & Co., whose Morgan Guaranty Trust Co. is the only major bank that's still triple-A rated, and Republic National Bank of New York. Superregionals NCNB Corp. in Charlotte, N. C., and Banc One Corp. in Columbus, Ohio, are also considered solid borrowers.

It's the troubled banks, such as Chase, that deepen the worry lines in the credit markets and other halls of high finance. Says Tanya Azarchs, an analyst with Standard & Poor's Corp.: "There's a bit of panic in the market." Bankers can only hope the panic doesn't grow in coming months.

By John Meehan and Larry Light, with Leah J. Nathans, in New York

PHOTOGRAPH BY KEN KERBS, CHART BY LAUREL DAUNIS/BW

IRAQ STRIKES JAPAN— RIGHT IN THE STOCK EXCHANGE

With the Nikkei off 23%, Tokyo's market is 'all gloom and doom'

It takes a lot to turn Tokyo's stock market bulls into outright bears. Even after rising interest rates hammered the Nikkei stock average down 28%, to 28,002, earlier this year, investors turned around and pushed the widely watched indicator halfway back to the record-high 38,915 it hit last December. Many even figured they'd finish the year without a loss.

What they didn't figure on was Saddam Hussein's troops overrunning Kuwait. Since the Aug. 2 invasion, the stock market outlook, unlike the more tempered mood among Japan's industrialists, has been "all doom and gloom," says Edwin C. Merner, director of Schroder Investment Management Ltd. in Tokyo. With oil at $33 a barrel, the Nikkei down 23% since Aug. 2, to 23,726, and with interest rates at their highest point since the early 1980s, the only thing traders want to talk about now is how big the next downward lurch will be.

As delayed effects of tighter money and costlier oil start slowing the Japanese economy, many analysts, including Jardine Fleming Securities Ltd. economist Paul A. Summerville, think the Nikkei could retreat to 19,000, its lowest level since 1986. "Japan's markets are undergoing a total realignment" that's leaving few issues or sectors unscathed, says Christopher T. B. Purvis, S. G. Warburg Securities' Tokyo branch manager.

DEVASTATED. Traders have been dumping companies with Middle Eastern oil refinery contracts, such as Sanko Engineering & Construction, down 46% since August. Banks have fared little better. Their massive portfolios of shares in Japan Inc., which they count as part of their capital, have been devastated by the Nikkei collapse. Mitsui Taiyo Kobe Bank, for example, has watched the value of its corporate stock holdings shrink from $30.6 billion to $24.2 billion.

Auto makers are down, too, with Mazda off 20%, Nissan 20%, and Honda 10%. Real estate and construction stocks also have been hammered. And even once-hot small stocks are no longer a haven. The over-the-counter market, which rose as the Nikkei fell earlier this year, has retreated 25% since July. "People now know you can even lose money on new issues in the OTC market," says Kojiro Watanabe, president of Tokyo Investment Information Center, a money manager.

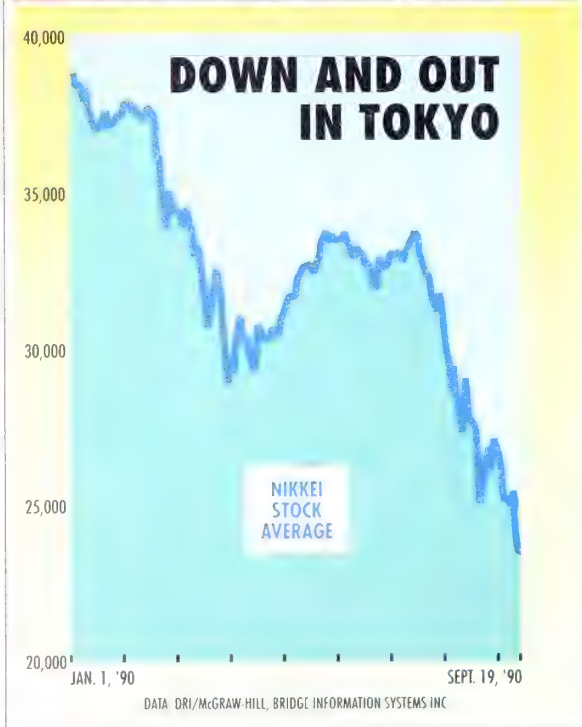
Even if Persian Gulf tensions cool, there is little sign that Tokyo's investment climate will improve. Already concerned about an overheating economy in the months prior to the Kuwaiti i sion, Bank of Japan Governor Yas Mieno now seems determined to squ hard enough to keep the oil shoc 1990 from making Japan's mountin flation problems worse. On Aug. Mieno hiked the bank's discount three-quarters of a point to a nine- high of 6%. But capital spending retail sales remain robust, and sala are rising at a 6.2% annual rate. inflation projected at 4% for next y Mieno indicates that "we need to co ue this tight policy."

SLOW BURN. Even though that policy already wiped out the stock market, real economy won't feel much of a sl for a while. Many major corporati such as Hitachi Ltd., are sitting on e mous amounts of cash raised during market's glory years and should be insulated. But sooner or later, say lysts, higher oil prices and tighter ey will cut into corporate profits and gross national product. Among e warning signs: Corporate profits rise a mere 1% this year. And tal spending, mainly focused o bor-saving equipment, is incr ing more slowly than anticipa Many economists now expect anese GNP to rise by 3.8% or next year, down from 5% in 1 "It's time people changed t opinion on the economy," says oshi Uchida of CS First Boston pan) Ltd.

Not all buying has ceased. H er oil prices have sparked ene related issues such as Japan S age Battery Co., which developing a more efficient a battery. The stock shot up 27% just one week. One contrarian, lix Zulauf of Eurovaleur Inc New York-based investment ad er, thinks Tokyo's travails may near their end. He argues that dollar's recent 9% drop against yen is prompting Japanese in tors to keep their money at ho thus putting a floor under sto "Eighty percent of the bear m ket is over," he says.

But even if Tokyo settles d after dropping a few thous points more, "we're not hea back to the Golden Age," s economist Robert Alan Feldma Salomon Brothers Asia Ltd. pan's stock market enjoyed se years of nearly uninterru growth before tight money en the winning streak. Now the m ket may be in for a long wait fore it can begin partying aga

By Ted Holden in Tokyo, with liam Glasgall in New York



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* Source: SMRB 1989

BusinessWeek

BOND DADDIES' ARE OFFERING VER MORE KINDS OF CANDY

iler-room dealers find new ways to lure investors

fficials in McLennan County, Tex., were flush with $5 million raised from bonds sold to build a dren's zoo, when the phone calls ıe from Houston. On the line were a ple of smooth-talking bond salesmen mising to tend the money, until it s needed, in government-backed secu- es yielding as much 11.5%. It looked so ıd that, last winter, nty officials invested bond proceeds, plus additional $6 million. ut what McLennan was grief. When in- st rates rose, the ds plunged $800,000 value. The county s to build the zoo, losses are forcing it curtail projects such the renovation of a enile center. "If only knew then what we w now," says Coun- Judge Raymond tkin.

W AGE. Matkin isn't ne. Fancy new prod- s manufactured out government securi- have become a fa- ite vehicle for boiler- m operators seeking fleece investors. A all but growing le- n of fringe broker- s have found a niche the $110 billion-a-day rket for Treasuries l mortgage-backed government agen- bonds such as those of the Federal tional Mortgage Assn. Even well- wn securities firms have been ac- ed of taking advantage of unsophisti- ed buyers. A court ordered Paine- bber Inc. to pay $129,600 for losses urred by the Memphis Housing Au- rity. The broker says it made money the agency, and a judge scrapped the ard. The case is on appeal.

Some legislators fear that the abuses uld grow worse unless Congress and regulators get tough. Representative ward J. Markey (D-Mass.), chairman of a House finance subcommittee, predicts that existing problems will be magnified by penny-stock con artists chased out of their chosen field by a recent government crackdown.

Today's scams are a new twist on an old tradition. In the 1960s, the so-called bond daddies of Memphis and Little Rock sold shaky tax-exempts to senior citizens across the country. Only a few were prosecuted. But regulators say these bond brokers are enjoying a resurgence from the explosion of new-age trading products. Instruments such as zero-coupon "strips," which sell principal and interest separately, were designed for professional traders. Now these products are being pitched to unschooled investors drawn by offers of high returns—and the supposed safety of government backing. Increasingly, the victims are not just individual investors but smaller credit unions, colleges, and state and local governments (table).

Investors often don't realize that many hybrid instruments are extremely sensitive to interest-rate changes and may fluctuate considerably prior to maturity. And with mortgage-backed securities, prepayment by homeowners can dramatically cut returns.

What troubles critics is the dearth of regulatory oversight, which allows government securities firms to open—and operate—on a shoestring. Under current law, small firms that route all customer trades through Wall Street clearing firms need retain only minuscule net capital. What's more, specialized government-securities firms don't have to purchase the federal insurance required of securities broker-dealers. And in most states, brokers dealing solely in federal securities aren't even required to pass the standard competency exam taken by stockbrokers.

'PERVASIVE.' When violations do occur, investors often find they're on their own. Regulators of stocks and municipal bonds can pursue cases against abuses such as churning—rapid trading to generate commissions. Similar protection does not always exist for buyers of federal securities, though. What's more, lack of broad public access to bond-price information makes its difficult for investors to know when they're being overcharged—and for regulators to build fraud cases. As a result, it's common for unscrupulous brokers to charge markups of 5%, vs. the norm of less than 0.5%.

Still, Markey and other congressional reformers won't get new legislation without a fight. Already, big Wall Street bond houses warn that creating regulation to attack a few fringe players could saddle the market with additional expenses and drive up the government's borrowing costs.

Meanwhile, the blight spreads. The bucket shops' latest product is bundling Small Business Administration loans into a collateralized obligation. One thing the fast-buck artists have going for them is an ample supply of government securities to play with.

By Dean Foust in Washington

HOW TO LOSE MONEY IN GOVERNMENT SECURITIES

MEMPHIS HOUSING AUTHORITY

Invests in reverse repurchase agreements, or repos, that lock up money for years in Treasury securities before broker buys securities back at pre-arranged prices. Belatedly learns that federal guidelines limit housing agencies to investments of one year, and it loses more than $3 million when it has to unwind its investment. Wins $129,000 jury verdict against PaineWebber, which denies liability, but judge overturns award. The case is on appeal

SAN JOSE, CALIF.

Loses $60 million in risky trades on repos and brokers' commissions for what city calls excessive trades, or churning. Claiming it didn't know federal rules bar government bodies from risky investments, city has recovered $28 million in settlements and verdicts from some of its 13 brokers

VALDOSTA STATE COLLEGE

Georgia school loses $3.8 million by such trades as selling Treasury bonds short. Tries to sue its four brokerages, but they go out of business. School's director of business services pleads guilty to altering records to hide losses

WEST PALM BEACH, FLA.

Investments in 30-year Treasury bonds lose more than $6 million, which city attributes to churning by brokers. In pending suit, city says they made 1,000 transactions during 20 months. Brokers deny liability

DATA: COURT DOCUMENTS

$200 billion they want to ru

The federal budget deficit is actually much higher than that. Having made a mess of the budget, Congress is on the hunt for new revenues and business is one of the targets. Congress' record in trying to live within a budget is dismal. Raising taxes isn't the answer, it's got to stop.

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OUT OF THE RUBBLE AND INTO THE JUNKYARD

The arbs, bloodied by takeover stocks, are turning to junk bonds

For five years, William S. Kaye was the high-flying head of arbitrage at PaineWebber Inc. In 1989, he received $12 million from the firm—more than any other employee. But he resigned on Aug. 17 amid the slump in the arbitrage business. Kaye has launched Pacific Group to invest Asian money in securities of U. S. companies and is planning to move to Hong Kong. "There are much better opportunities outside of arbitrage now," he says.

KAYE: NO MORE ARBITRAGE

That may be the understatement of the year. There is devastation in arbitrage country. The arbs, who make their money by buying stocks of takeover targets, are getting hit from two directions. First, the deal business is way off. Through Sept. 11, according to Securities Data Co., 3,118 deals worth $145 billion involving U. S. companies had been announced, down from 3,318 takeovers valued at $281 billion in the year-ago period. Even worse, since the invasion of Kuwait on Aug. 2, stocks have been battered—especially those of companies involved in takeovers. Now, with their traditional business in tatters, arbs are scrambling to find new territory. Junk bonds are catching their eye.

BATTERED. Industry experts say Wall Street's arbs have lost more than $1 billion this year in stock arbitrage. Coniston Partners has been hit for about $138 million in UAL Corp. Buying into Avon Products Inc. has cost Chartwell Associates about $121 million. Guy P. Wyser-Pratte, risk-arbitrage manager at Prudential-Bache Securities Inc., says his department has realized "no losses" this year, but insiders say it has lost at least $20 million. Blackstone Group closed its arb department in January.

The principle of playing junk bonds and investing in takeover stocks is the same. When a leveraged company announces it will convert debt to equity shore up its balance sheet, the arbs ru in and buy the junk bonds. The idea that the junk will appreciate with t restructuring. And arbs were heavy bu ers of RJR Nabisco Inc. bonds in Jun when Kohlberg Kravis Roberts & C said that it would add $1.7 billion fresh equity to bolster the company.

Arbs have been buyers when comp nies such as Interco, Southland, and Tr cor Holdings announce that they inte to exchange existing junk bonds for combination of new bonds and equit Since January, says Salomon Brothe Inc., 26 restructurings involving $12 billion have been announced, and t arbs have become big investors in ma of these restructurings. "This is whe the action is for us now," says the he of arbitrage at one firm.

In one case, arbs are even buyi commercial bank loans. Penrod Drillin Co., once owned by Nelson and Herbe Hunt, was bought by an investme group lead by Texas dealmaker Ric ard E. Rainwater this year for $4 million. The company had been in d fault last year on its $550 milli bank loans. Arbs at one Wall Stre firm bought millions of dollars wor of the Penrod bank debt for 80% its face value. They are betting th Rainwater will turn the compa around and eventually convert t bank debt to publicly traded comm stock. If that happens, the arb say his firm "will double our money."

PINING AWAY. The payoffs from t new arb plays in debt aren't alwa cut and dried. "In some deals, y have to wait for a company to co out of bankruptcy," says an a "That could mean a year or mor Moreover, junk bonds pose a ris They can fall in price because intere rates in general move higher, as th did after the recent rise in oil pric

That's why arbitrageurs are pini for a return to the good old days playing takeover stocks. Their spir rose after Barden Corp. said on Se 17 that it had agreed to be bought FAG Bearings Corp. Heavy buying the arbs helped send Barden's sto rocketing 32 points.

Arbs liken the state of their bu ness to the postcrash period. Af stocks plunged 508 points on Oct. 1987, many on the Street wrote off t arbs. But they came roaring back. "I member, we were dead and buried af the 1987 crash," says one. "But 1988 w a huge year." True, but until the st market can escape Saddam Hussei shadow, the arbs will have to be cont with the pickings in the junk pile.

By Jon Friedman in New Y

STOCKS WHERE ARBS HAVE TAKEN HITS THIS YEAR

AMERICAN GENERAL Dropped to 40 recently from 50 in May. Company rejected a $50-a-share bid by Torchmark

AVON Rose to 38⅛ in July after Chartwell Associates said it would accumulate 26% of Avon's shares. Now trades at 29

FIRST BRANDS Tumbled to 23 recently from 29 in July. Company solicited potential buyers for all or part of its stock in June

MACK TRUCKS Jumped to 7¾ in July following announcement that a subsidiary of Renault Vehicules Industriels would begin a $6-a-share tender offer for all shares. Slipped to 5 in August. Now trades at 6⅛

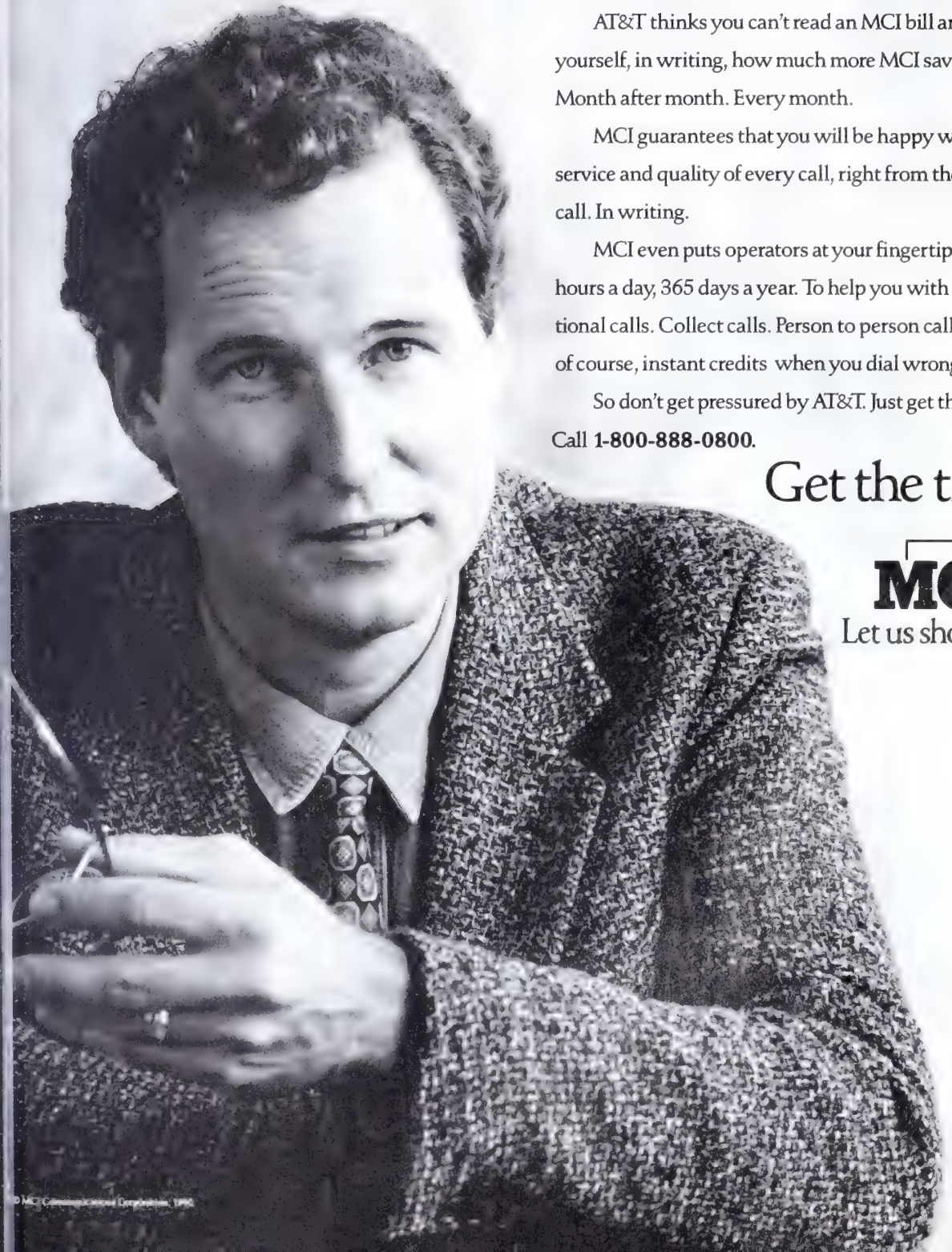
PINNACLE WEST Fell to 11⅜ in September from 18⅝ in July. Company rejected a takeover bid of $21 by PacifiCorp in May

TELECREDIT Declined to 36¾ in September after shares had risen to 54¼ in June, following announcement of an agreement to merge with Equifax

UAL Fell to as low as 89½ in September from 171 in January and 294 in September, 1989. A buyout of the company collapsed in October, 1989. Prospects for a revised $201-a-share bid grew dim on Sept. 14

DATA: BW SURVEY OF ARBITRAGE FIRMS, BRIDGE INFORMATION SYSTEMS INC.

"AT&T says get it in writing. I get it in writing from MCI. Don't they think I can read?"



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SARAH BAGWELL, AGE 4, *Cardome Center, Georgetown, Kentucky*

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Georgetown needed to start this important community and childcare center.

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But we are even more excited by the long-term value of Debbie's vision to the country as a whole.

How great will the impact of this project be? We're not sure.

Although we hope that some day Sarah and her trusty computer will be able to give us the answer.

TOYOTA

INVESTING IN THE INDIVIDUAL

BY GENE G. MARCIAL

MONSANTO MAY BE MIXING SOME WINNING FORMULAS

In late July, when Monsanto reported weak second-quarter earnings, Wall Street was unforgiving. The stock, currently at 42, dived from 52 to 40 in just four weeks. Now, analysts are continuing to give the chemical company a thumbs-down in part because of the spurt in oil prices and the resulting rise in feedstock costs.

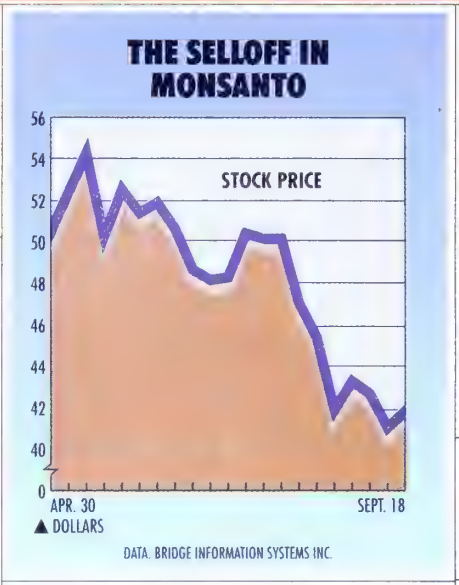
No matter, say some smart-money players who have been buying. They think Monsanto is greatly undervalued based on the potential of its new products in biotech and pharmaceuticals—and the company's plan to buy back shares even before they hit the skids.

"Management is well aware that Monsanto's shares are selling for dirt cheap right now," says one California money manager. They don't want the stock to "stay too undervalued for long," he says, "lest some German or French chemical or drug company sees Monsanto as a jewel of a bargain, especially with the dollar's slide."

Brian Warner, a money manager at Prudential-Bache Investment Management, puts Monsanto's asset value at twice its current price. He's hot on the stock because of the potential for a big break in its animal-sciences unit, which has been in the red because of startup costs for some new products, such as a bovine growth hormone. He believes the division, along with the biotechnology operations, will turn profitable next year.

UPSIDE SURPRISE. Some analysts worry about the loss of patent protection for some of Monsanto's agricultural chemicals, such as Roundup herbicide and NutraSweet, its low-calorie sugar substitute. But Warner believes those concerns have been amply discounted. In spite of the Street's fear that the worst has yet to come for the chemical industry, Warner believes it isn't too early to take advantage of Monsanto's falling stock. He maintains that its earnings will provide an upside surprise over the next few quarters. For 1990, Warner sees earnings of $4.40 a share, and for 1991, $5 a share.

Here's what Warner figures Monsanto's various units are worth, based mainly on their earning power: crop chemicals, $3.3 billion, or $26 a share; other chemicals, $2.8 billion, or $23 a share; NutraSweet, $1.8 billion, or $14 a share; Searle pharmaceuticals, $1.6 billion, or $13 a share; Fisher Controls International, a producer of industrial valves and electronic-process controls, $950 million, or $7.50 a share; biotech and animal sciences, $750 million, or $8 a share. Deduct debt of $1.4 billion, or $11 a share, and you get a total value of $80.50 a share.



WHAT MAY RING BELLS AT MOSCOM

Tiny Moscom counts among its customers such global behemoths as American Telephone & Telegraph, British Telecom, and Germany's Siemens. But that worldwide link hasn't protected its shares from the stock market's current decline.

Moscom, which produces equipment that keeps track of telephone calls made by employees, reported a 128% jump in second-quarter earnings. And the company earned a nifty $2.2 million, or 34¢ a share, on sales of only $13.6 million last year. But its stock has tumbled to 4¾ from 8 in late June.

The stock decline has caught the attention of bargain-hunters. But some big investors have another reason for buying: They see a sharper earnings climb, primarily because of the reunification of Germany.

Through Siemens, the German market now accounts for some 10% of Moscom's sales. "German businesses are the most receptive in the world to purchasing call-accounting systems because of the high cost of phone services there," says Robert Boxer, Moscom's secretary. He expects "explosive growth" in the company's G man business, particularly now th East Germany is ready to start rebui ing. Boxer believes that as Germa updates its telecommunications s tem, demand for Moscom's produc should rise.

Doug Johnson, a money manager Safeco, a Seattle-based insurer th owns 5% of the stock, says Europe w be "an exciting market" for Mosco He thinks it will contribute substanti ly to 1991 earnings, which he sees r ing to 50¢ a share this year and 6 next year. Johnson believes the sto could hit $10 a share.

CAN HOWTEK BEAT THE SHORTS?

It's broker Dean Witter Reynol against the shorts in Howtek. De Witter controls about 20% of t shares of this maker of color printi systems. The shorts, betting that t stock will continue to tumble, ov more than 1 million of the 7.6 milli shares outstanding. They say there no way Howtek can meet its earnin projections of 75¢ a share this year a $2 next year.

So far, the shorts have had the edg Since July, Howtek's stock has c lapsed from 14 to 7. But the bu aren't willing to cry uncle just ye True, Howtek has been in the red sin 1985—it lost 50¢ a share last year—b they contend that investors will so see a big turn in the company's pro pects. Dean Witter and other bulls a convinced that earnings per share w be up sharply in the second half of th year from the first half's 8¢ a share

Why? One investor says new orde could come in soon from News Ame ca Holdings, a division of Rupert Mu doch's News Corp., which owns a 25 chunk of Howtek's stock. Howtek products include Colorscan, a comple turnkey color-separation process f newspaper and magazine publisher In the past year, it has become th company's fastest-growing product.

Dean Witter analyst Willard Brow says the backlog of orders should sta rising from here, partly because Ho tek has set up new sales dealershi overseas. Bill Relyea, an analyst New York investment firm Labe Sim son, says 1990's second half will get boost from new, high-margin produc just coming to market this year. "Th negativity about Howtek's prospec greatly underestimates the company earnings potential," says Relyea.

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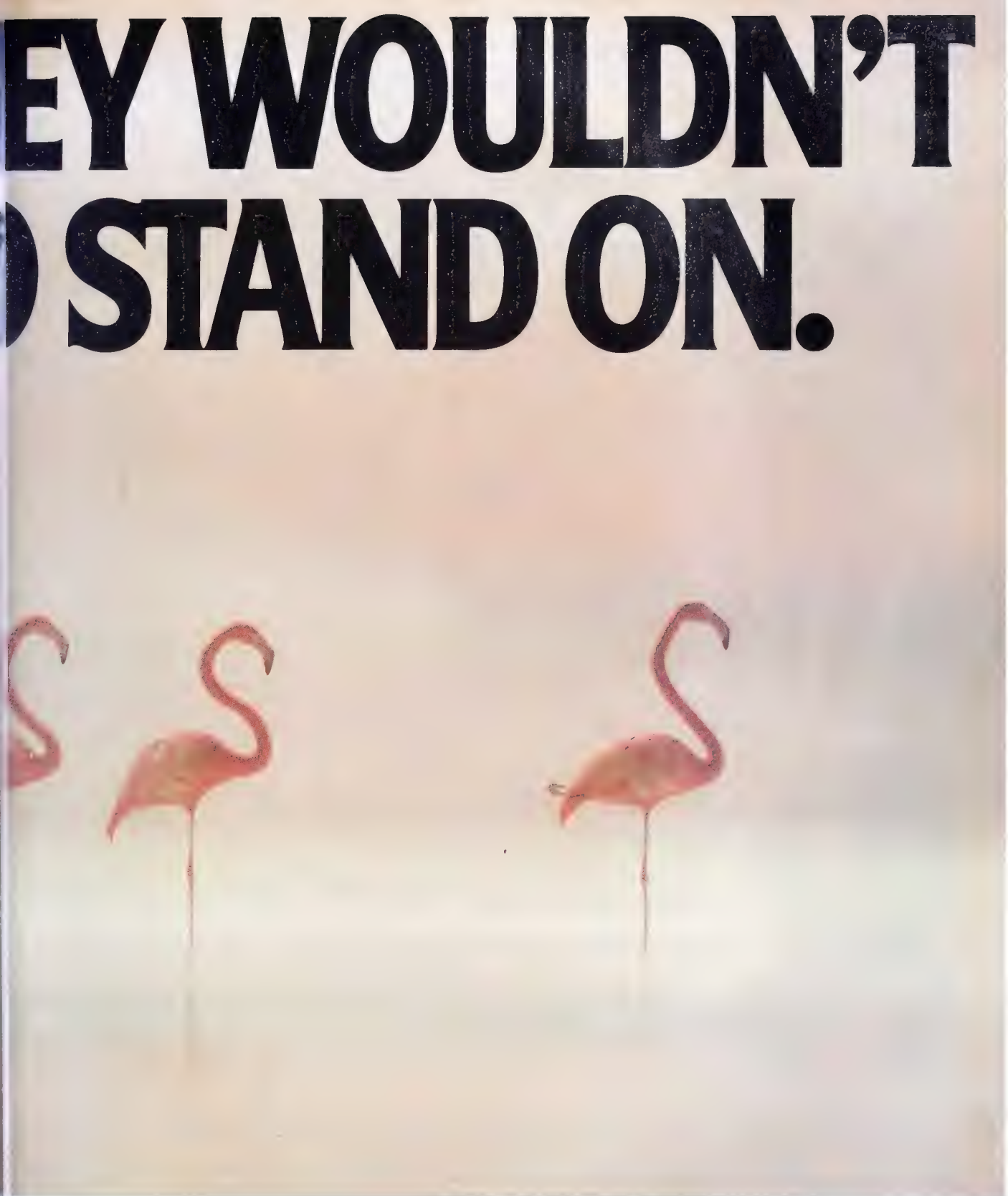

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IBM AND MICROSOFT: THEY'RE STILL TALKING, BUT...

They've each agreed to stick to one operating system—but not the same one

From the beginning, IBM and Microsoft Corp. seemed like an odd couple. Microsoft's rumpled chairman, William H. Gates III, used words such as "cool" and "superneat" to describe his software. The pin-striped executives who ran the personal-computer business for IBM Chairman John F. Akers used terms such as "strategic" and "market-driven" to describe theirs. Funny thing was, they were usually talking about the same products. For most of the decade during which the two companies have collaborated, they've been able to smooth over their differences. But in recent months, the relationship degenerated into "a rift, verging on open warfare," says Robert H. Dickerson, a former Microsoft manager, now a vice-president at Borland International.

That rift threatened to paralyze demand, as customers tried to decipher conflicting messages from the two companies. IBM, attempting to secure a dominant position in the new market for networked computers, was making an all-out push to convert customers to OS/2, a basic program for controlling personal computers that had been developed jointly by IBM and Microsoft and that gave PC users the same sort of "graphical-user interface" popularized by Apple Computer Inc.'s Macintosh. And with OS/2 on their PCs, IBM told customers, they would be ready for Systems Application Architecture (SAA), IBM's grand scheme to tie all sizes of computers into giant networks controlled by mainframes. Microsoft, however, was telling a different story. It was pushing a hot new product called Windows 3 that also gave ordinary PCs the "user-friendly" graphics of the Macintosh—and made the expensive switch to OS/2 unnecessary for most people.

With computer buyers and trade publications buzzing about turmoil in the IBM-Microsoft partnership, the two companies recast the relationship on Sept. 17. Gates and James A. Cannavino, general manager of IBM's Personal Systems, announced that IBM will now take charge of developing most versions of OS/2. Microsoft, meanwhile, will be free to push Windows 3 and continue updating MS-DOS, the operating system that it wrote for the original IBM PC and that OS/2 was intended to replace. Bottom line: The two have agreed to compete openly and have agreed to disagree on when OS/2 will become a major force in the computer industry. IBM will push OS/2 now; Microsoft will wait—perhaps several years—until it completes an advanced version of OS/2 that will work on many brands of computers.

LAST SHOT. At a minimum, the new pact scraps the unworkable 1989 compromise that was the source of the most recent tension (table). Dissatisfied with the slow sales of OS/2, last November IBM got Microsoft to agree to restrict development of Windows after June, 1991, and to make development of application programs for OS/2 a top priority. Microsoft got one last shot to make Windows a hit. In return, IBM agreed to postpone its own graphics program that would have competed with Windows.

Akers: IBM will keep custody of the OS/2 standard and will use a streamlined Lite version against Windows

A PC BUYER'S VIEW OF T

When IBM and Microsoft agree, everyone knows what the standard will be

1980
IBM meets with Bill Gates, asks him to develop an operating system for the original IBM PC. The result, MS-DOS, ships a year later

1984
IBM unveils the Topview windowing system, which is supposed to compete with Microsoft's Windows graphical interface, introduced in 1983

1985
IBM and Microsoft sign a joint development agreement. Two years later, they announce OS/2 and Presentation Manager, an adaptation of Windows. Topview is killed

1988
IBM licenses k software from Inc. and Meta Computer Sys Their graphic programming tems are alter to Windows

3M and Microsoft had ured on a rapid itch to OS/2. Back in 5, they had seen that sinesses would need better operating sys- than MS-DOS if PCs re to take on more plex tasks. MS-DOS ced severe limita- s on the size of pro- ms and was capable doing only one thing a time. PCs linked in works, IBM figured, uld need to do sever- things simultaneous- -compiling a spread- et, receiving electronic mail, and ing for information from a data base, example.

o IBM and Microsoft set out to make /2 a powerful "multitasking" operat- system. They also agreed that it ded an easy-to-use graphical inter- e. Microsoft's Gates lobbied IBM to ply adopt Windows, which had been oduced in 1983. But IBM balked, and /2 was announced in April, 1987, with sentation Manager, a graphics "envi- ment" derived from Windows but in- ling technology developed at IBM's oratories in Hursley, England.

FTING GEARS. In 1988, shortly after ial shipments of the program, IBM Microsoft officials predicted that /2 sales would overtake those of MS- by 1990. But because OS/2 runs on powerful PCs costing at least 00, and because few exciting pro- ms have been written for it, sales e remained sluggish. Worse, the big inesses that were the best prospects OS/2 seem to have lost interest. A nt Datamation/Cowen & Co. survey nd that only 4% of corporate comput- buyers plan to switch to OS/2 within coming year. That's down from 8% 989 and 10% in 1988. In three years, 300,000 copies of OS/2 have been sold—while tens of millions more copies of MS-DOS were sold. "It is fair to say that OS/2 hasn't lived up to our speculations," says Microsoft Senior Vice-President Steven A. Ballmer. "That fact, more than anything else, has changed our relationship with IBM."

IBM'S CANNAVINO: WILL USERS STILL BE CONFUSED?

Indeed. When OS/2 flagged, Microsoft was able to shift gears and concentrate on beefing up MS-DOS, from which it still derives 19% of its annual $1.2 billion in revenues. Windows was key. So, by 1989, Microsoft had diverted programming talent to Windows 3, further slowing OS/2's advancement. Boosted by a high profile promotional campaign that had Gates appearing on *Good Morning America* and other TV programs, the move paid off: In just four months on the market, Microsoft says it has sold a million copies of Windows 3. "Microsoft sees the opportunity to have 40 million PCs running Windows," says Eric Benhamou, president of network-software maker 3Com Corp.

But IBM had bet big on OS/2. By including OS/2 in its SAA scheme, Big Blue had made it part of its basic marketing strategy for networking personal computers with mainframes. Forging those links was seen by IBM strategists as the best way to keep mainframes—which deliver 50% of the company's revenues and 60% of its operating profits—at the center of corporate-information systems.

To hedge its bets, IBM had also sought out alternatives to programs that Microsoft was developing. IBM licensed graphics and programming software from Steve Jobs's start-up, Next Inc., and typeface software from Adobe Systems Inc. Early in September, Big Blue formed a joint venture with Metaphor Computer Systems, of Mountain View, Calif. Called Patriot Partners, the venture plans to create a layer of software that will allow a program such as a desktop-publishing package to run on a variety of operating systems. Thus, programmers would work with Metaphor's technology instead of Microsoft's when creating new software. Says Stewart Alsop, of *PC Letter*: "The Metaphor deal is the opening salvo in a five- to-seven-year IBM plan to regain control" from Microsoft.

IN THE MIDDLE. Those deals—and the conflicting marketing campaigns by IBM and Microsoft—also left customers in a muddle. Dan Willis, a computer manager at 3M Co., was so confused that he helped form a group of Minneapolis-area PC buyers to discuss their mutual problems. Like Willis, many wanted to make their office workers more productive by upgrading their IBM PCs and clones with easy-to-use graphics software. They didn't know whether to stick with MS-DOS and add Windows or to switch to OS/2. "We were in the middle of it all saying, 'What do I buy?' " says Willis.

While the new agreement makes it clear that IBM and Microsoft will be free to pursue separate goals, customers

(TOP TO BOTTOM) PHOTOGRAPHS BY JOHN MARTINI; LOUIS BENCZE, GRAPHIC BY LAUREL DAUNIS/BW

Gates: Microsoft will keep beefing up the older but more popular MS-DOS, as well as new versions of Windows

-MICROSOFT RELATIONSHIP

But when they don't see eye to eye, it's tough to tell just what to buy

AY, 1989

ludes some of ft's ing gy in OS/2 d Edition, an sion of OS/2

REPORTS, BW

NOVEMBER, 1989

IBM endorses Windows for low-powered PCs. In return, Microsoft agrees to make writing OS/2 applications a top priority. Rumors of an IBM Presentation Manager "Lite" – another threat to Windows – are quelled

MAY, 1990

Microsoft unveils Windows 3.0 with great fanfare. IBM licenses the Go Corp. operating system for computers that read handwriting, snubbing Microsoft's work in that area

SEPTEMBER, 1990

IBM announces joint venture with Metaphor. IBM takes charge of OS/2 development and is expected to announce OS/2 "Lite." Microsoft will continue developing MS-DOS and Windows

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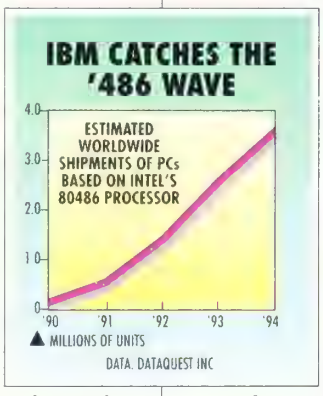
could still be confused. "It's not all cut and dried," says IBM's Cannavino. "You can't say that MS-DOS goes on this type of [computer], Windows on this type, and OS/2 on another." For instance, IBM agreed to license Windows and plans to release OS/2 Lite, a version that will compete directly with Windows. And the IBM-Microsoft relationship is not cut and dried, either. Both say their disagr ments have been blown out of prop tion, but concede that there have be strains. "You may not understand marriage," says Microsoft's Ballm "but we're not getting divorced."

By Richard Brandt in San Francisco Evan I. Schwartz in New York, with Dei A. Depke in New York and bureau repo

WHERE, OH WHERE, IS IBM'S SUPERSERVER?

It's not that IBM can't keep a promise. It's just that timing is a problem.

Last spring, the company showed customers a whole new line of high-powered microcomputers to run networks of desktop PCs. The preview included a glimpse of IBM's "Superserver," a heavy-duty filing system to run networks of PCs that IBM promised would outshine a similar machine from rival Compaq Computer Corp. Now, Big Blue is ready to introduce these new computers. But the Superserver won't be among them. That machine, which will use two Intel 80486 microprocessors, requires a new version of communications software and of OS/2, the PC operating system jointly developed by IBM and Microsoft. That software isn't ready and may not be for some time, now that IBM has taken over other OS/2 projects from Microsoft (page 164).



So instead of making a real splash in the market for PCs based on the Intel 80486, IBM is expected to trot out machines using single 80486 chips next month. While not Superservers, they'll be the most powerful PCs that IBM has ever offered. Each of the new Personal System/2s will come with as much as four megabytes of memory, disk drives that can hold more than 1 billion characters of information, and improved graphics. "You can expect to see some pretty powerful systems this fall," says James A. Cannavino, general manager of IBM Personal Systems.

Not powerful enough to faze Compaq, says Michael S. Swavely, president of its North American operations. He thinks the machines won't match SystemPro: "IBM is running behind the technology curve." That's especially true now that Banyan Systems In has released a $13,995 network opera ing system that takes advantage SystemPro's dual processors—wh the delayed software is supposed to for the Superserver.

LIMITED SUCCESS. The Superserver delay—which may only be until ear next year—may not make much diffe ence, however. Other suppliers' powe ful 80486-based file servers have h limited success because little softwa exists to take adva tage of the mainfram caliber chip. In 198 just 137,000 80486-bas machines were sol says Dataquest In That's less than 1% the 22.2 million-unit market.

So IBM is hardly t late: "IBM is making commitment to th market while it's st early enough to get in says John C. McCarth an analyst at Forrester Research In

In fact, IBM could have one big ed over rivals—its giant direct sales for Analysts say that Compaq and oth suppliers of 80486 PCs have been ha pered because they sell through co puter dealers, who don't usually ha the technical sophistication to mark these machines, which often cost mo than $20,000.

Because customers are using su machines to anchor important cor rate networks, says Pradeep Jotwa Hewlett-Packard Co.'s North Americ PC marketing manager, they are bei bought by data-processing manage who "are used to dealing with a cert kind of sales rep." Says Rick J. Mart an analyst with Prudential-Bache Se rities Inc.: "Most of the Superser sales will be made by IBM's direct p ple." As soon as they have somethi to sell, that is.

By Deidre A. Depke in New Y

BEST

of the "Best"

When 1990 MediaGuide compiled nominations for "The Best Stories and Columns of 1989," there were 13 Insight cover stories on the list. Four made the final cut, more than from all other magazine finalists.

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Fortune	2
National Journal	2
Time	1
Forbes	1
New York Times Magazine	1
New York	1
The National Interest	1
Foreign Affairs	1
New York Review of Books	1
Financial World	1

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Insight
on the news

THE 'YEAR OF THE WOMAN'? WELL, MAYBE

Female candidates, running in record numbers, face cash shortages and lots of old-fashioned sexism

Senate Minority Leader Bob Dole thought he was being helpful. The acerbic Kansan agreed to sponsor a fund-raiser for GOP Representative Patricia Saiki's race for a Hawaii Senate seat, then told a largely male group of party fat cats that Saiki was "the best opportunity for a Republican pickup" in 1990. Only when a nervous ripple ran through the room did Dole recognize the double entendre. Saiki quickly retorted that she aspired to lots of things in life "but never to being a pickup."

In Warwick, R. I., recently, a cabdriver offered his opinions on GOP Representative Claudine Schneider's chance of unseating Democrat Claiborne Pell, a 30-year veteran of the Senate. He hasn't decided if he can support a woman. "Claudine's O. K.," he says. "But tell her to do something about that hair."

In Illinois, Republican Lynn Martin hadn't even begun airing tough ads attacking Democratic Senator Paul Simon. But the mere fact that she hired GOP media pit bull Roger Ailes to produce her spots led the Simon camp to denounce her as a "Mata Hari."

UNLADYLIKE? Saiki, Schneider, and Martin are the leading edge of a wave of women bidding to enter the upper reaches of U. S. politics. They are discovering that life on the political road can be perilous. Politicians must learn that common political metaphors can have embarrassing double meanings. A female candidate's clothes and hairstyle can matter as much to voters as her stands on issues. And despite the current popularity of negative advertising, a woman who attacks her opponent too vigorously risks being branded as unladylike.

Long a fixture of local politics, women in 1990 are running statewide races in record numbers. Eight won nominations for governor. They range from such high-profile candidates as Democrats Dianne Feinstein in California and Ann Richards in Texas to such unsung sloggers as the GOP's Arliss Sturgulewski in Alaska and Mary Mead in Wyoming. Seven women—six of them Republicans—are chasing Senate seats. And 33 seek to join the 25 female members of the House (table, page 172). "We're going to change the political landscape," says Wendy Sherman, executive director of EMILY's List, which raises funds for Democratic women candidates.

SCHNEIDER TRAILS PELL IN THE RHODE ISLAND SENATE RACE

Well, maybe. The fact is, two decades after the feminist revolution, women pols are still hurt by the perception that they lack the stature to supplant male officeholders. And women are hobbled by a chronic shortage of cash, since many lack access to old-boy fund-raising networks. "Women aren't credible u the money begins to flow," notes El Malcolm, president of EMILY's List. "I the money doesn't come in unless th have proven they're credible."

Entrenched sexism, which usua takes the form of doubts that a wom is "tough" enough for the manage challenges of high office, also remain stubborn obstacle. Such doubts m have been heightened by t Persian Gulf standoff. "T worst thing that could happ to a woman candidate is a r itary crisis," says Celinda Lake, a Democratic politi consultant. "Voters just do think women can handle it

When they try to sou tough, the result can be a v er backlash, since a wom who comes on like Jo Wayne risks being instan tagged as unfeminine. "V ers are more tolerant of ne tive advertising by men," c tends Lake. "When a wom does it, it sounds shrill."

FARM SYSTEM. Despite th drawbacks, some politi pros thought 1990 wo be different. The Supre Court's 1989 abortion decis became a galvanizing iss and pro-choice women are biggest winners. The p choice surge is a key rea former San Francisco Ma Feinstein emerged from tough Democratic prim with the right to challe GOP Senator Pete Wilson.

Another reason pun called 1990 the "Year of Woman" is the growing r vance of such issues as education, he care, and family leave for workers. play to a woman's perceived sense caring and compassion.

As it happens, while Democrats sp most of the feminist rhetoric, the has the best farm system for develop women candidates. A key reason: Democrats' base in big city machi and labor unions, neither of which e

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ly accept women into leadership ranks.

By contrast, Republicans seem eager to send women onto the field. Indeed, the party's hopes for recapturing the Senate depend heavily on the success of three pro-choice women seeking office in Rhode Island, Illinois, and Hawaii. Schneider, Martin, and Saiki are all running competitive races against incumbents. And because the national GOP has directed a flood of contributions to their campaigns, all are well-financed.

BEST SHOT. Of the three, Saiki may have the best shot. A popular two-term representative, Saiki, 60, is opposing Senator Daniel K. Akaka, an affable, unexciting native Hawaiian appointed in April to succeed the late Spark M. Matsunaga.

Although the GOP isn't much of a force in the state, Saiki has overcome that liability by skillfully playing ethnic politics. She has solid support among Hawaii's growing population of well-heeled retirees from the mainland. Yet her Japanese ancestry is attractive to Hawaii's mostly Democratic Japanese-Americans.

Saiki is making inroads among independents with her pro-choice views and her promises to protect the environment. She's also riding the crest of a tax revolt, one of the few issues that distances her from the easygoing Akaka. "The people of Hawaii are overtaxed," she declares. "President Bush's change of heart on taxes was a mistake."

Akaka, 66, a seven-term congressman, is relying on the union-dominated Democratic machine. But his slack campaign style gives the spirited Saiki an opening. Polls show her leading 45% to 41%.

WOMEN IN POLITICS: SLOW PROGRESS

	Percent of women officeholders		
	1975	1983	1990
CONGRESS	4%	4%	6%
STATEWIDE ELECTIVE	10	13	14
STATE LEGISLATURES	8	13	17

DATA: BW

Saiki's biggest advantage is that Akaka hasn't had much time to build strong voter loyalty. Women running against established incumbents have it much tougher. Ask Rhode Island's Claudine Schneider, who is trailing in her race with Claiborne Pell. In the capital, the veteran Foreign Relations Committee chairman is regarded as something o lightweight. But back home, he's a vered political institution.

Schneider, 43, is younger and m dynamic and is pushing hard on theme of generational change. Sh been given a boost from Pell hims Asked during a debate what he had d to benefit Rhode Islanders, the 71-ye old Pell drew a blank, then replied: " memory's not as good as it should b

The incident gave Schneider a b jump in the polls. But the Iraq cr allowed Pell to capitalize on his fore policy role. Schneider could only look as the incumbent dominated the ne with a visit to the troops in Saudi A bia. She now trails by 12 points.

The race offers many contrasts. D ocrat Pell is a Newport patrici Schneider the daughter of a Pittsbu tailor. Pell, the son of a congressm inherited his public service role al with the family fortune. Schneider tered politics as an anti-nuclear-po activist. Schneider is still a free sp She broke with the White House o abortion, family leave, and the envir ment. And she excels at old-fashio politicking. "I think I've met every v in the state twice by now," she s

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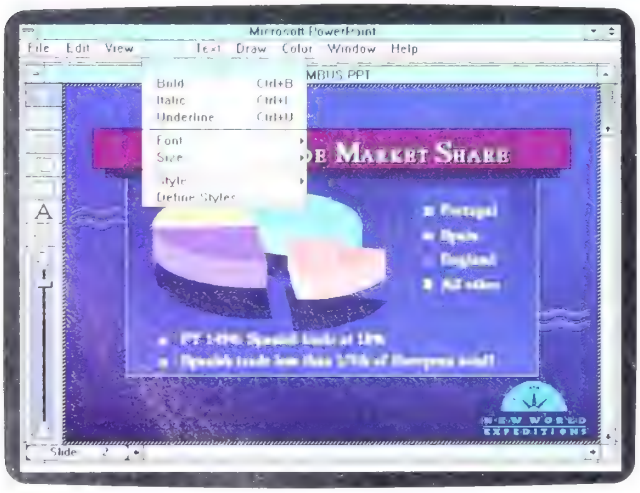

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olitical pros give her outside shot.

Saiki and Schneider ve proven adept at cking the needle into irly lackluster oppo- nts. But in Illinois, nn Martin, running ainst a more skillful mpaigner, has had a rd time making in- ads against wily Paul non.

Martin spent the mmer depicting Dem- at Simon as a man o'd never met a tax rease he didn't like. t that theme fizzled July, when President sh moved his lips.

SSED VOTES. Another Martin complaint is it Simon could have ped Illinois by taking a seat on the propriations Committee but chose in- ad to remain on the Judiciary and reign Relations panels. This seeming- whimsical decision paid off when Da- H. Souter's nomination to the Su- me Court and the Persian Gulf crisis both committees into the limelight. ion now dominates state airwaves, while Martin's unheeded demands for a debate are coming off as desperate.

MARTIN (RIGHT) WITH BACKER: OUTMANEUVERED BY ILLINOIS' PAUL SIMON SO FAR

Simon has vulnerabilities. He has little legislation to his credit. He missed many votes during his 1988 Democratic Presidential bid. He is far more liberal than most Illinois voters. And Simon has been stung by newspaper reports alleging he helped campaign donors win favors.

Still, the studiously folksy Simon remains a formidable vote-getter. Although he has long favored defense cuts, he responded to the Middle East crisis by calling for a preemptive U. S. strike against Iraq. Martin hasn't been able to match such fancy footwork. She trails in the polls by 15 percentage points.

When Campaign '90 is over, many of the women trying to reach a higher rung on the political ladder may end up disappointed. But women's advocates won't be deterred by this year's setbacks. Already, they are vowing that 1992—when reapportionment and an expected wave of congressional retirements will create a large number of open seats—will bring a huge opening. That may at last make the much-heralded Year of the Woman less of a buzzword and more of a reality.

By Paula Dwyer in Providence and Springfield, Ill., with Rick Daysog in Honolulu.

MARK PETERMANN

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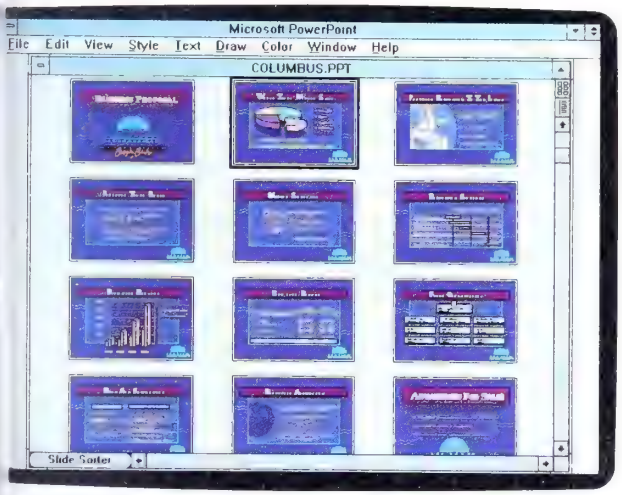

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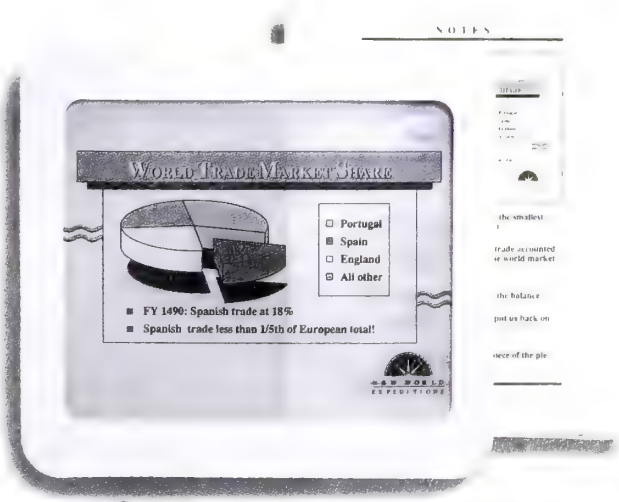

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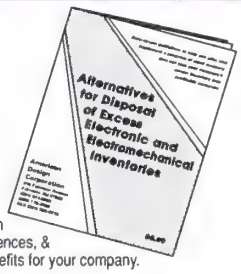

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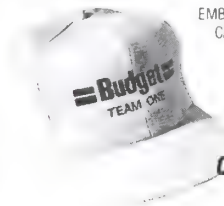

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It's the world of on-line data bases. Once the domain of reference librarians, these electronic storehouses of in-depth info can now be reached by PC hobbyists and business users. Learning how to navigate data bases can help you at work or play, giving you sales leads, movie reviews, insights on a new investment, a roundup of health spas, or the critical statistic you need for tomorrow's meeting. But without some guidance, you can end up spending hundreds of dollars hunting down dead-end roads in the 5,000 or so data bases across the country.

BLAZING BAUDS. To get started, you'll need—in addition to any PC—a modem and communications software. The program will dial phone numbers and retrieve, or "download," information from the data base into your computer. Don't skimp on the modem. Since you'll be charged by the minute while connected to a service, buy the fastest modem, measured in bauds, that you can. A 2,400-baud modem, for example, can cost only 30% more than a 1,200-baud (say, $350 vs. $275) and transmits data twice as fast. True, data bases will vary rates depending on the sort of modem you have; still, a faster modem ends up being more cost-efficient. Besides, waiting for slower modems can drive you nuts.

For a general introduction to the electronic services that provide access to data bases, do some research on paper instead of on-line. Computer magazines often carry ads for various services, along with a toll-free number to call for information. Another good starting point is *How to Look It Up Online* by Alfred Glossbrenner ($15.95, St. Martin's Press). Though some of the quoted prices are now out of date, the book describes many different services and offers great advice on how to avoid pitfalls such as paying for a service that doesn't really fit your needs, or asking for topics so broad that you end up with thousands of articles pouring into your computer.

The seasoned data-base jock realizes that the key efficient searches is knowi where to look. The array specialized data bases for p fessionals is stunning: Mana ers in personnel departmen for example, can tap the H man Resources Informati Network, which gathers ar cles from nearly a hundr sources on benefits issues, bor relations, and affirmati action. It will even outline s tistics on schools in particu cities for employees about relocate. There are also ind try-based "electronic newsl ters" such as *Outlook on I* or the daily updat *BioWorld* for biotechnolo industry executives.

DATA BOUTIQUES. For m specific print guides to d bases, consider *The Directo of Online Databases* fr Cuadra/Elsevier in New Y (212 633-3980), at a $175 an al subscription, which inclu two issues and two supp ments. And Knowledge Ind try Publications (800 248-54 within New York State: 328-9157) offers *Database rectory* for $395 a year, wh includes a monthly news ter. Once you start learn the ropes, you can even l up data bases of data ba These guides have themsel been put on-line.

The guides will tell you h to connect to each data ba There are two basic wa Some data bases can tapped only through th own computers. The d base called Horse, for ex ple, which claims to have tailed information on ev North American thorou bred that has raced si 1922, resides in a compute Lexington, Ky. The compu will have a phone num that your PC calls to ge

data. This sort of data se is like a boutique that ls goods exclusively from a gle manufacturer.

The alternative is the pow- ul data-base supermarket ch as Dialog, Nexis, or Or- . These companies own ge computers that store ndreds of data bases from lependent sources; many available through more n one service.

Prices can vary dramatical- from one service to the ct. To further compli- e matters, every- dy bases prices fferently. Nexis, m Mead Data Cen- l, for example, rges $50 per month l $39 per on-line hour, s anywhere from $5 to $50 each search, depending on ich data base you're perus- . Dialog, on the other nd, charges only $35 per ur and has no per-search , but it requires a one-time rtup fee of $45 and rges anywhere from $15 $300 an hour while you're nected to a data base. s/Colleague charges no an- al fee whatsoever, but it s have a minimum of $20 month.

FULL STORY. Data bases ne in three basic types: bcites" will just locate the icle you're looking for and you where it is; others l offer short summaries of at is in the article. Still oth- offer complete texts, ich you can read on screen download to read or print. Most services offer all ee types of data bases. But computer memories grow, trend is toward recreating full text of articles that ve already appeared in nt. Dow Jones, for exam- , offers not only its own *ll Street Journal* on-line, also BUSINESS WEEK, *The w York Times*, and *The shington Post*.

The more information that ffered, of course, the more ensive the data base. You choose among "good, t, and cheap," notes Barba- Quint, editor of *Database archer* magazine. "You y get two out of three."

One great alternative for the beginner, though: Ask for after-hours services. Some electronic vendors offer deep discounts if you are willing to make your calls only at night and on weekends. For example, one of Dialog's services, the Knowledge Index, can be used only on weekends and after 6 p.m. on weekdays. But it costs just $24 an hour and knocks $10 off the regular startup fee.

Say you've picked a data base and are ready to go searching. Most data bases will ask you for a key word or words. But if a data base is searching the complete text of thousands of articles, you can get a lot you didn't want. Recently, I wanted a story about fly-fishing in Hawaii. I asked Magazine Database Plus to search its list of magazine articles for all three words. I ended up with articles about Chinese officials flying to Hawaii for a summit and a little recreation (including a fishing trip).

So it's crucial to study the guides most services provide that tell you how to narrow your search. Sometimes as simple a tool as putting quotations around two or more words will knock out references where they don't appear together. In my case, typing "fly fishing" might well have spared me the Chinese diplomats.

There's no question you'll have to count on a learning curve—and probably on spending some extra dollars at first. Quint tells the story of a hapless doctor who was showing off Medline, a medical data base, at a party. He walked off to play host, leaving the machine on—and ended up with a bill of more than $1,000. (He got reimbursed, however. Although they don't like to publicize it, most services won't charge you for mistakes like that.)

Data-base purveyors are trying to make searching easier, too: Dow Jones now has one data base that understands so-called "natural language." Called DowQuest, it could handle a search based on commands such as "Give me everything you've got on General Motors and labor relations since January."

FOR THE NOVICE. If you just want to dabble, home "videotex" services such as GE Information Services' GEnie or Prodigy, available with IBM's new PS/1 home computer, offer a few data bases along with home shopping and entertainment services. Both charge flat rates per month for unlimited time. More robust services—CompuServe, The Source, or Delphi—are available. Along with their on-line games and free software, they can connect up with data bases for an extra fee.

In CompuServe, for example, the service called IQuest will reach across the country and tap into the Dialog computer and other systems for you. Even better, it is set up to lead you through the process step by step. It is an excellent start for the true beginner.

Those broader services offer a bonus in the form of electronic discussions called clubs, forums, or roundtables. In these sessions, experts frequently discuss the latest developments in their field, such as law. In fact, maybe I should check out the Old Timers' Hunting & Fishing Roundtable. I never did find that bibcite on fly-fishing in Hawaii. *Richard Brandt*

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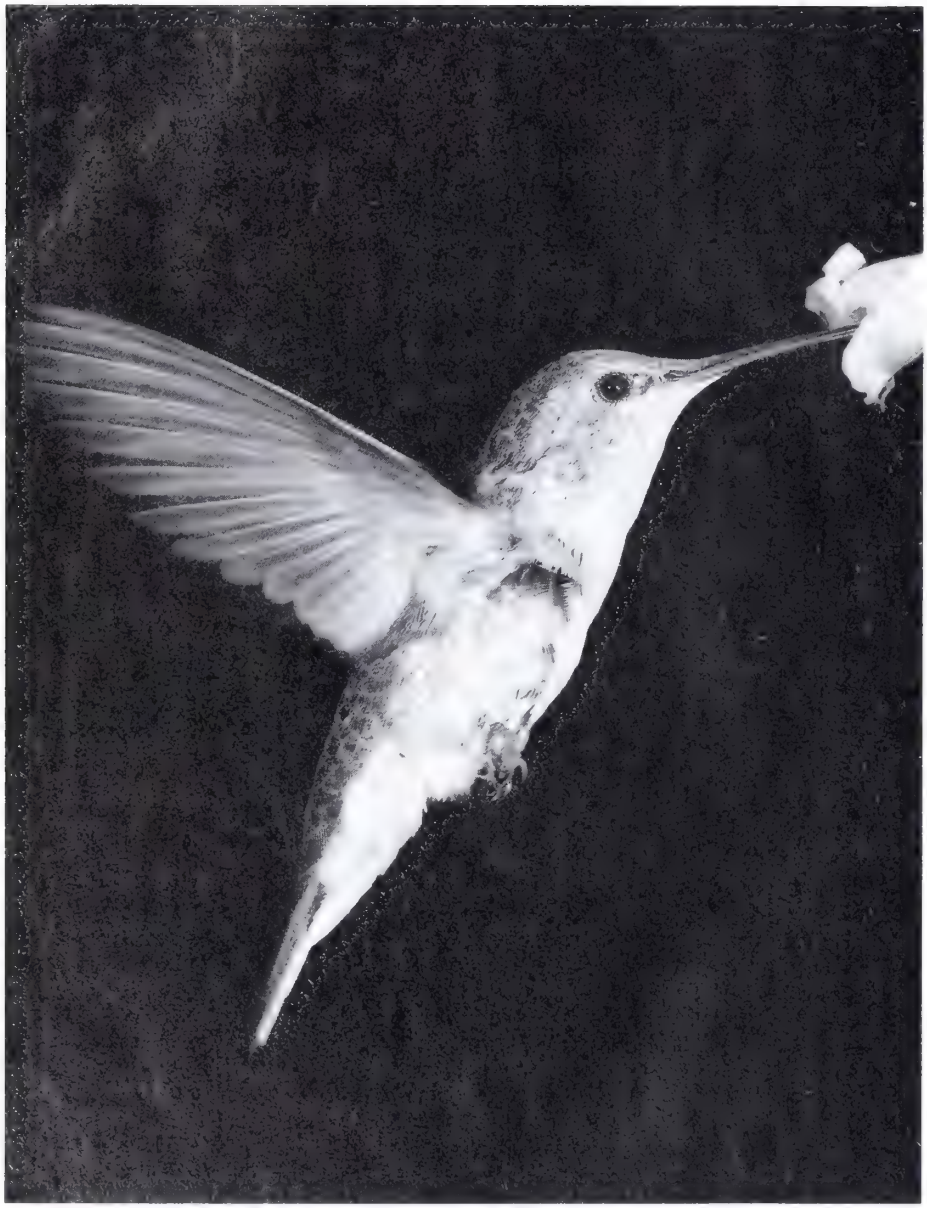

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VIN SUPERIEUR FROM THE NORTHWEST

Can a state known for its grain produce good wine? Yes—if the state is Washington. Its wines have been getting accolades across the U. S. Writes *The Wine Advocate* publisher Robert Parker Jr.: "The quality level is far greater and much more consistent than I would have imagined."

The state's obscurity as a wine producer stems partly from youth: Its senior winery is only 23 years old. And unlike New York, Washington has stayed away from quickie jug wines made from hybrid grapes. Instead, most wines are from a single variety, grown east of the Cascade Mountains, where the climate is dry, with long summer days for good ripening and cool nights for high acidity.

WASHINGTON STATE WINES: PATIENT CULTIVATION IS NOW PAYING OFF

Now, the patient cultivation is paying off. Some say the state's chardonnays and cabernets taste more like their French counterparts than do California's. Yet they cost at least 30% less than their California cousins—say, $7 vs. $11 for a good chardonnay.

Some of the state's best:

■ **1986 Reserve Merlot** (Hogue Cellars, $12). Washington's reputation has been built on its white wines, especially its Rieslings. But many experts predict that its future will be in reds—especially merlots. This one is berry-like.

■ **1988 Lemberger** (Kiona Vineyards, $10). Washington State happens to be one of the few U. S. producers of this German grape—not to be confused with the cheese—and it is similar to a Beaujolais.

■ **1988 Muscat Canelli** (H zon's Edge, $7). Not w known, muscats are cr wines with a floral aro good with a salad or dess This one is sweet and smoo but not syrupy thick.

■ **1985 Cabernet Sauvigr** (Chateau Ste. Michelle—Ri Ridge Vineyard, $18). Wa ington's biggest winery at best. Full-bodied, with black-currant flavor.

■ **1988 Johannisberg Riesl** (Hogue Cellars, $6). One *The Wine Spectator*'s top best buys of 1990. It ting on the tongue.

■ **1988 Semillon** (Colum Winery, $4.50). A poor ma chardonnay, this superli and dry wine is excellent w mussels, oysters, and crab

Unfortunately, Washing wines aren't easy to find o side the Northwest. Ma producers Chateau Ste. chelle and Hogue Cellars nationally distributed, but sample the wares of sm wineries such as Kiona Leonetti Cellar, you will n a wine merchant for spe ordering. *Dori Jones Y*

Tax Tips

SETTLE UP YOUR T&E— OR THE TAX MAN MAY BITE YOU

Many an executive is punctual about appointments, but a procrastinator on expense accounts. Congress now has a stern remedy: Fail to meet new IRS deadlines, and you can be taxed on expense money.

Because Congress tacked its crackdown onto the unrelated Family Support Act of 1988, "many people aren't aware of the implications" of the rules that took effect July 1, says George Scarfo, an American Express travel-management consultant. But they'll learn. Now, an advance is "taxable income until you prove otherwise," says attorney Robert Reetz of Austin, Tex., a business-expense specialist for publisher Bender's Federal Tax Service. Among the primary targets are executives of closely held businesses and big-company CEOs who brush off the bean counters.

Say you needed to take a quickie business trip last July 15, and you took out a $400 advance on July 13. That's when the clock began ticking. You spent $300 by your return on July 16. So far, so good; you spent the money within 30 days of getting the advance. But Sept. 16 goes by, and you haven't submitted your expense report. You've floated outside the 60-day "safe harbor" period, so the $400 becomes taxable income.

> An advance is 'taxable income until you prove otherwise'

By itself, submitting your travel-and-entertainment expense report on time isn't enough. You must also return that $100 left over from the advance within 120 days of your trip. If you don't, you'll notice something different about your paycheck.

NO LOOPHOLES. Now, the company must withhold tax on the amount of advance still outstanding and show that sum on your check stub for the next pay period. Then, the company must report it on the W-2 form for 1990 that it will send to you—and to the IRS—early next year.

Per diems, daily allowances for on-the-road outlays, can cost you taxes, too. Say the company pays a fl $100 a day, and you're goi to Kansas City, Kan. It's o of about 550 cities in t U. S. assigned a federal p diem rate—$86, to be exa So the extra $14 you g would wind up on your W as income, even if the t cost you more out of yo own pocket. Per diems ran from $67 in some small cit up to $147 in New York Ci For simplicity, a compa can pay a standard $122 28 high-cost locations, $ elsewhere.

As a practical matter, t IRS isn't going to know abo your nonexistent expense port for July. Not rig away, at least. But if you audited a few years hen this could be one more bo of contention. And with su complexities only the tip o T&E-regulations iceberg nc don't be surprised if the pense account departme would rather you just s no to travel. *Dick Jans*

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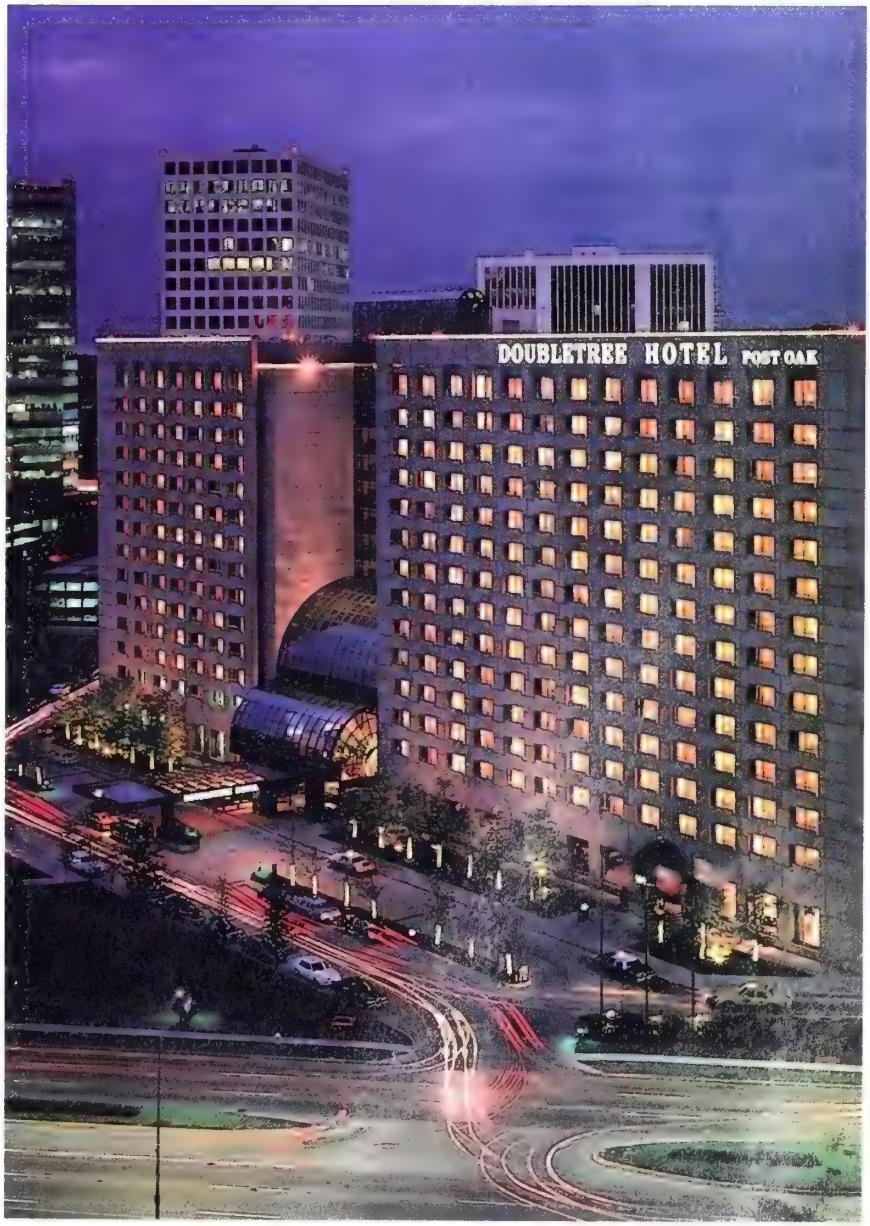

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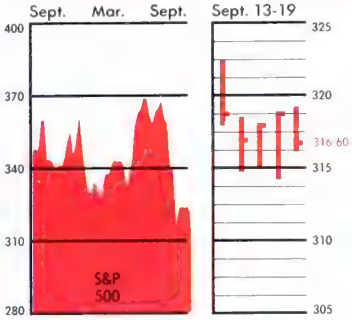
nvestment Figures of the Week

IMENTARY

prices reached over $33 per el, further depressing stocks heightening inflationary fears. rs from Washington didn't much, either. Fed Chairman Greenspan said there's a ter likelihood of recession, the budget deficit reduction remained elusive. No wonder Dow Jones industrial average ped 68 points, or 2.6%. rseas investors were hit even e. The Tokyo market was mered an additional 5.9%, London gave up 3.8%.

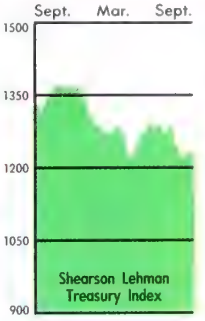
STOCKS



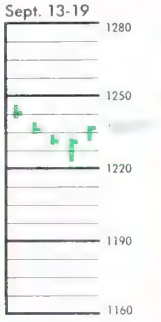
52-week change **–8.6%**

1-week change **–1.8%**

BONDS

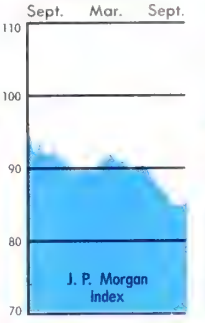


52-week change **–7.3%**



1-week change **–0.6%**

THE DOLLAR



52-week change **–10.4%**

1-week change **–0.7%**

ARKET ANALYSIS

. STOCKS	Latest	% change Week	% change 52-week
V JONES INDUSTRIALS	2557.4	–2.6	–4.7
COMPANIES (Russell 1000)	163.7	–1.9	–10.4
LL COMPANIES (Russell 2000)	136.8	–2.2	–22.4
COMPANIES (Russell 3000)	173.7	–1.9	–11.2

EIGN STOCKS	Latest	% change (local currency) Week	% change (local currency) 52-week
DON (FINANCIAL TIMES 100)	2065.8	–3.8	–12.8
YO (NiKKEI INDEX)	23,726.2	–5.9	–31.2
ONTO (TSE COMPOSITE)	3275.6	0.1	–16.1

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	7.7%	7.6%	8.1%
30-YEAR TREASURY BOND YIELD	9.0%	9.0%	8.2%
S&P 500 DIVIDEND YIELD	3.7%	3.6%	3.1%
S&P 500 PRICE/EARNINGS RATIO	14.8	15.1	13.4

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 26-week moving average	344.7	345.6	Negative
Stocks above 26-week moving average	17.2%	18.3%	Positive
Speculative sentiment: Put/call ratio	0.55	0.45	Positive
Insider sentiment: Vickers sell/buy ratio	0.75	1.01	Positive

DUSTRY GROUPS

BRIDGE INFORMATION SYSTEMS INC

R-WEEK LEADERS	% change 4-week	% change 52-week	Strongest stock in group	% change 4-week	% change 52-week	Price
LUMINUM	6.3	–1.8	REYNOLDS METALS	10.4	19.8	68⅞
EALTH CARE SERVICES	5.8	7.5	MANOR CARE	8.6	–13.7	12⅝
ATURAL GAS DISTRIBUTION	4.2	2.0	CONSOLIDATED NATURAL GAS	12.1	5.1	51⅛
OYS	2.1	–22.8	MATTEL	12.2	4.7	19½
EWSPAPER PUBLISHING	2.0	–31.7	DOW JONES	4.4	–45.9	20¾
R-WEEK LAGGARDS	**% change 4-week**	**% change 52-week**	**Weakest stock in group**	**% change 4-week**	**% change 52-week**	**Price**
OTELS AND MOTELS	–20.4	–68.0	PRIME MOTOR INNS	–88.9	–98.6	½
ACHINE TOOLS	–16.3	–34.5	CINCINNATI MILACRON	–19.2	–34.4	13⅛
OLD MINING	–14.2	14.1	NEWMONT MINING	–19.2	11.7	43
OMPUTER SOFTWARE AND SERVICES	–12.9	–34.2	ORACLE SYSTEMS	–47.2	–65.5	7⅛
ECIALTY RETAILERS	–11.1	–19.9	TJX	–18.3	–35.5	12¼

UTUAL FUNDS

MORNINGSTAR INC.

DERS

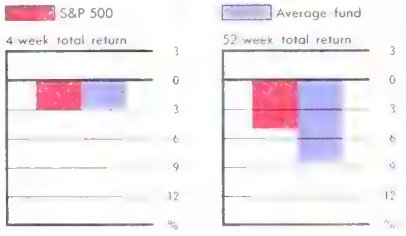
-week total return	%
QUITY STRATEGIES	5.5
IDELITY SELECT BIOTECHNOLOGY	4.7
OMURA PACIFIC BASIN	2.9

veek total return	%
QUITY STRATEGIES	77.3
IDELITY SELECT ENERGY SERVICE	47.2
IDELITY SELECT BIOTECHNOLOGY	36.7

LAGGARDS

Four-week total return	%
STRATEGIC INVESTMENTS	–23.2
UNITED SERVICES GOLD SHARES	–19.8
RUSHMORE PRECIOUS METALS INDEX PLUS	–18.4

52-week total return	%
PRUDENT SPECULATOR LEVERAGED	–45.7
STEADMAN OCEANOGRAPHIC TECHNOLOGY	–39.6
WASHINGTON AREA GROWTH	–37.4



ELATIVE PORTFOLIOS

DATA RESOURCES INC

ar amounts esent the present e of $10,000 sted one year in each portfolio

entages indicate day total returns

Gold	Money market fund	Treasury bonds	U. S. stocks	Foreign stocks
$10,850	**$10,700**	**$9,788**	**$9,270**	**$8,503**
–0.58%	+0.14%	–0.91%	–0.76%	–2.74%

ata on this page are as of market close Wednesday, Sept. 19, 1990, unless otherwise indicated. try groups include S&P 500 companies only; performance and share prices are as of market close Sept. 18. Mutual fund returns are as of Sept. 14. Relative portfolios are valued as of Sept. 18. A more detailed explanation of this page is available on request.

A HELPING HAND FOR THE SOVIETS

As the Kremlin's rigid central command system disintegrates, the lack of any workable alternative makes the emergence of some form of market system in the Soviet Union seem inevitable. The U. S., as the world's major proponent of the benefits of the marketplace, must not simply stand by approvingly as this historic change takes place. Washington should strongly support the Soviet effort to shift economic decision-making from the Kremlin to millions of producers and consumers.

Besides improving output and living standards, the shift should bolster pluralistic political institutions that are starting to take root. And after 70 years of economic isolation, dynamic market forces could speed the Soviets' integration into the global economy. The resulting network of links, created by trade and investment flows between the Soviet Union and the rest of the world, should deter future leaders from the aggressive policies of the Stalin-Brezhnev era.

To achieve these benefits for both the U. S. and the Soviets, the U. S. should lower trade barriers by extending most-favored-nation tariff treatment to imports from the Soviet Union. Moscow has met the requirement of the Jackson-Vanik Amendment, which links MFN to freer emigration, by opening the doors for Jewish emigrants, who have been leaving in numbers up to 10,000 per month. The U. S. should further strengthen Soviet ties to the international community by supporting Moscow's bids to join institutions designed to promote trade and financial flows among market economies—the General Agreement on Tariffs & Trade, the International Monetary Fund, and the World Bank. The Bush Administration should also explore guarantees and other ways of urging U. S. private investment in the Soviet Union.

Such economic links will widen U. S.-Soviet relations beyond a narrow focus on measures such as arms control, aimed at heading off dangerous clashes. However, the nationalist forces that are winning greater autonomy for the 15 Soviet republics also may cause Moscow's tight control over its scattered nuclear forces to erode. That is all the more reason for pushing ahead on agreements to curb nuclear arms while broadening peaceful ties.

ONE MARKET, ONE CURRENCY

As central bankers and finance ministers gather in Washington for the International Monetary Fund's annual meeting, one of them—British Chancellor of the Exchequer John Major—will be rallying support for a currency that could rival the U. S. dollar as the world's *moneta franca*. Meet the new version of the European ECU.

The ECU has been around since 1979, but until now it has been a theoretical "basket" of the currencies of the 12 members of the European Community. Its use is increasing rapidly (page 53), but it is still hampered by its artificia Britain and Germany fear losing sovereignty under ful monetary union, and some smaller countries fear losing j But a new gradual approach cooked up by the British make monetary union palatable to all.

Britain's appealingly simple solution is to print up ECU a real currency, with notes and coins like any other. Th would circulate throughout the EC, alongside national rencies. Consumers attached to their Deutschemarks French francs could keep using them as long as they But the "hard ECU" would gradually win them over beca of a major advantage: It would not be allowed to dev against any EC currency. For investors and institution could serve the same stabilizing role as the greenback after World War II. Progressively, it would become a c mon currency, ultimately the only one in Western Euro

This "market approach" is gaining support among smaller EC countries, and the German Bundesbank could with the hard ECU, though with reservations. This w guarantee that monetary union would happen, but only fast as the financial community wants.

Washington has long promoted a unified Western Eur A common hard currency is essential to achieving that g And by competing with the dollar, the ECU may ultima help the U. S. in a backhanded way—by forcing new d pline on Washington's economic policymakers.

BRING THE 'BIG GREEN' BATTLE DOWN TO EARTH

Four years ago, a business group warned that Califo faced "the second-biggest business disaster" in its tory, dwarfed only by the crash of 1929. The purpo cause: a ballot initiative requiring warnings on prod containing chemicals known to cause cancer and birth fects. Voters passed the measure overwhelmingly anyw and most of it has been implemented with little ill effec the economy; charbroiled steaks still don't carry labels opponents had claimed they would.

But the opposing factions apparently haven't learned t lesson. As they battle each other over this fall's far r stringent environmental initiative, known as Big Green, are picturing doomsday scenarios: In one version, pesti bans and greenhouse-gas limits would drastically hike and energy prices, costing government, business, and sumers billions of dollars when the nation can least af it—as it prepares to slip into recession. In the other vers California faces environmental disaster.

There are lots of reasons to sound an alert. Big G likely would place hardships on small farmers, chem companies, auto makers, and utilities, and raise some sumer prices. Similarly, the state has plenty of reason worry about its environment. It isn't the warnings but shrill tone in which they are being delivered that is t bling. Friends and foes of the Big Green initiative nee bear in mind that they are dealing with probabilities ra than facts. All Californians—who clearly want more env mental protection—would benefit if the rhetoric were co

) October 8

A REPORT CARD ON ALAN GREENSPAN ▶ AR

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ING THOSE NETW
PAGE 142

BusinessWeek

OCTOBER 8, 1990 A McGRAW-HILL PUBLICATION $2.00

AGONY AT CHASE

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The once-mighty bank of the Rockefellers is in deep trouble. Can incoming CEO Tom Labrecque keep Chase Manhattan independent?

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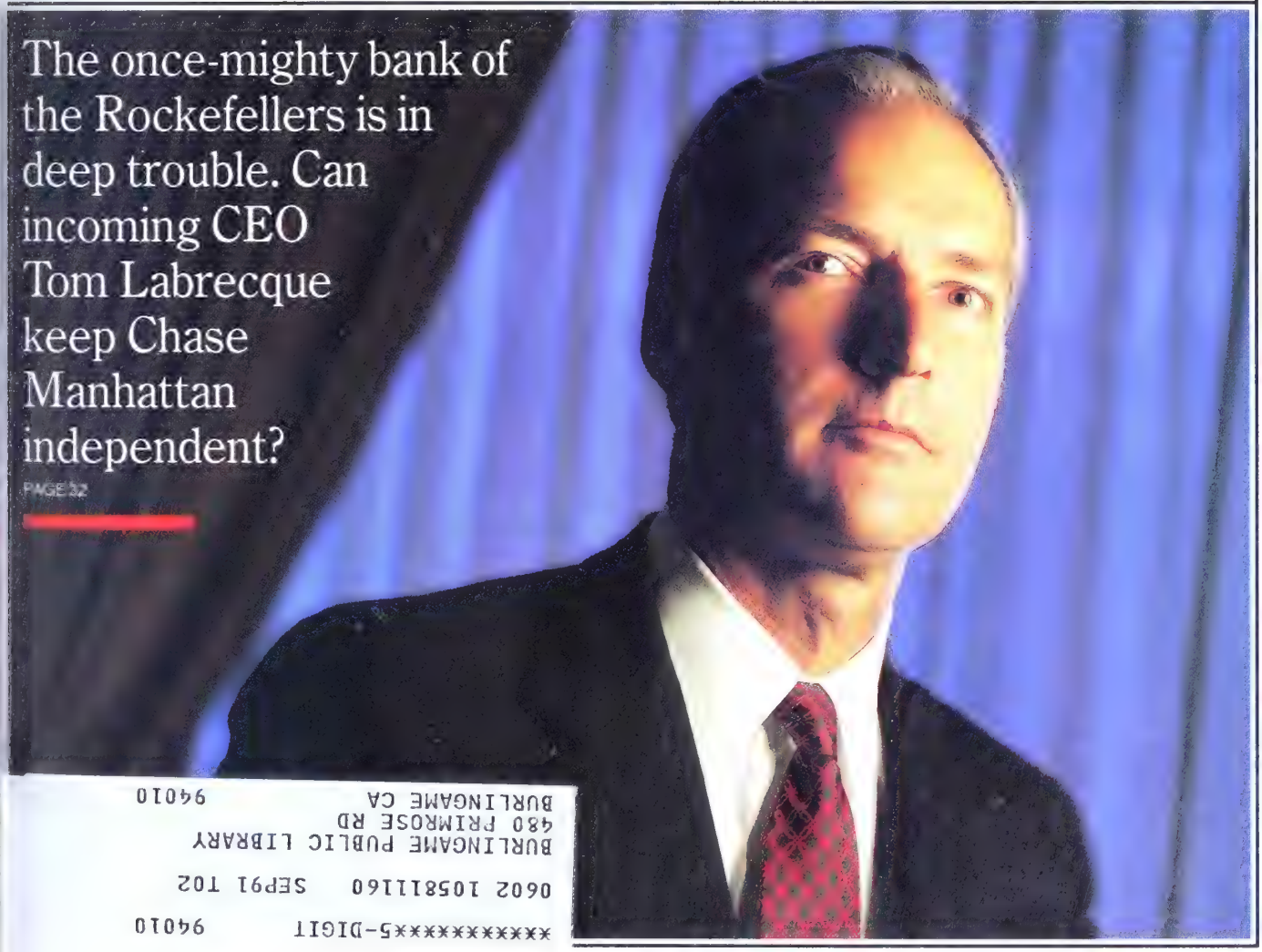

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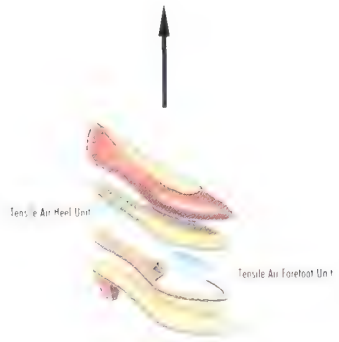
[Gravity] *It's what's wrong with every pair of shoes you've ever owned.*



Most people are content
making shoes that
fit feet, but we make shoes
that also fit the planet.
Shoes that fight gravity
where it lives.
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can't see Tensile Air,
but you'll know it's there.
Unfortunately, the
same can be said of gravity.

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NUMBER 3181

BusinessWeek

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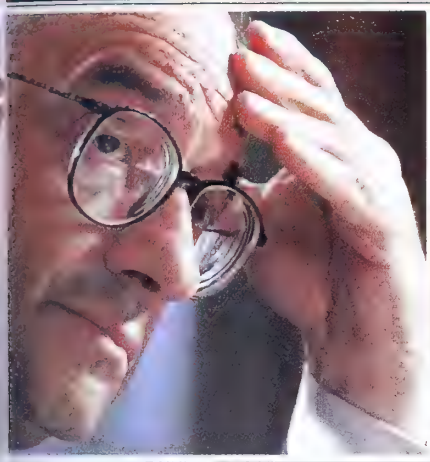

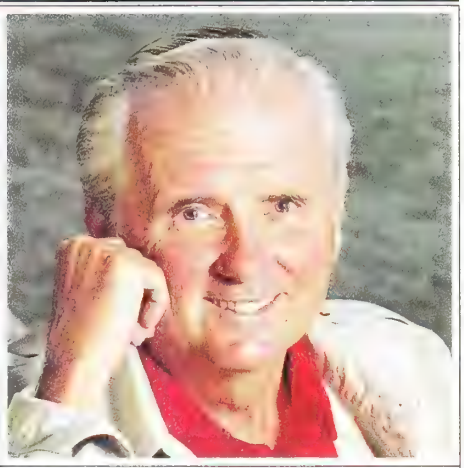

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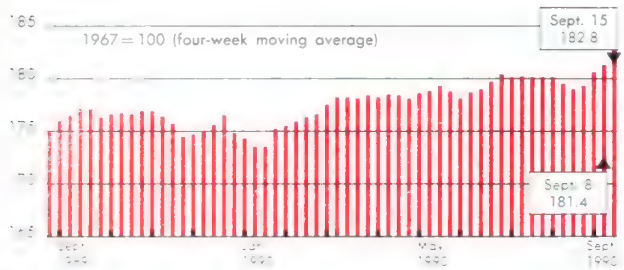
BusinessWeek Index

PRODUCTION

Change from last week: 1.8%
Change from last year: 3.2%

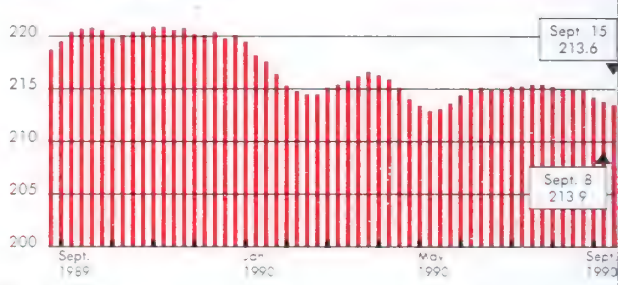


The production index rose in the week ended Sept. 15. However, only one component posted a significant advance: Rail freight traffic was up sharply, reflecting a bounceback from the Labor Day holiday. Production of autos, trucks, and lumber declined. Steel, paper, and electric power registered small losses. Crude-oil refining barely rose, and paper output was unchanged. Before calculation of the four-week average, the index rose to 182.8, from 181.4 the week before.

BW production index copyright 1990 by McGraw-Hill Inc.

LEADING

Change from last week: –0.1%
Change from last year: –3.3%



The leading index fell slightly for the week ended Sept. 15, as the index continues to weaken since early August. In the latest week, the growth rates for real estate loans and materials prices accelerated sharply, and bond yields dropped a bit. Stock prices were lower, and M2 grew more slowly. Data on business failures were unavailable. Before calculation of the four-week moving average, the index increased to 214.2, from 213.1 in the previous week.

Leading index copyright 1990 by Center for International Business Cycle Research

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
STEEL (9/22) thous. of net tons	1,863	1,882=	7.5
AUTOS (9/22) units	148,795	136,689r=	2.3
TRUCKS (9/22) units	89,048	78,725r=	14.4
ELECTRIC POWER (9/22) millions of kilowatt-hours	55,464	61,180=	4.5
CRUDE-OIL REFINING (9/22) thous. of bbl./day	14,262	14,377=	3.7
COAL (9/15) thous. of net tons	21,371=	18,904	8.8
PAPERBOARD (9/15) thous. of tons	753.0=	751.7r	1.5
PAPER (9/15) thous. of tons	750.0=	756.0r	2.5
LUMBER (9/15) millions of ft.	461.6=	385.6	–12.4
RAIL-FREIGHT (9/15) billions of ton-miles	21.5=	18.6	5.9

Sources: American Iron & Steel Inst., *Ward's Automotive Reports*, Edison Electric Inst., American Petroleum Inst., Energy Dept., American Paper Inst., WWPA[1], SFPA[2], Association of American Railroads.

FOREIGN EXCHANGE

	Latest week	Week ago	Year ago
JAPANESE YEN (9/26)	137	138	139
GERMAN MARK (9/26)	1.57	1.57	1.86
BRITISH POUND (9/26)	1.87	1.88	1.63
FRENCH FRANC (9/26)	5.26	5.26	6.32
CANADIAN DOLLAR (9/26)	1.15	1.16	1.18
SWISS FRANC (9/26)	1.31	1.30	1.61
MEXICAN PESO (9/26)[3]	2,894	2,890	2,571

Sources: Major New York banks. Currencies expressed in units per U. S. dollar, except for British pound expressed in dollars.

PRICES

	Latest week	Week ago	% Change year ago
GOLD (9/26) $/troy oz.	402.700	386.500	9.1
STEEL SCRAP (9/25) = 1 heavy, $/ton	115.50	115.50	8.5
FOODSTUFFS (9/24) index, 1967 = 100	217.7	213.5	2.5
COPPER (9/22) ¢/lb.	133.4	138.6	–0.9
ALUMINUM (9/22) ¢/lb.	93.5	90.9	22.5
WHEAT (9/22) = 2 hard, $/bu.	2.82	2.86	–31.4
COTTON (9/22) strict low middling 1-1/16 in., ¢/lb.	70.84	70.87	2.9

Sources: London Wed. final setting, Chicago mkt., Commodity Research Bureau, *Metals*

LEADING INDICATORS

	Latest week	Week ago	% Chan year a
STOCK PRICES (9/21) S&P 500	315.15	320.14	–9
CORPORATE BOND YIELD, Aaa (9/21)	9.51%	9.54%	5
INDUSTRIAL MATERIALS PRICES (9/21)	107.7	107.2	1
BUSINESS FAILURES (9/14)	NA	295	N
REAL ESTATE LOANS (9/12) billions	$380.6	$379.3r	9
MONEY SUPPLY, M2 (9/10) billions	$3,317.8	$3,314.9r	5
INITIAL CLAIMS, UNEMPLOYMENT (9/8) thous.	382	382	22

Sources: Standard & Poor's, Moody's, *Journal of Commerce* (index: 1980 = 100), Dun Bradstreet (failures of large companies), Federal Reserve Board, Labor Dept. CIBCR seasonally adjusts data on business failures and real estate loans.

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Chan year a
PERSONAL INCOME (Aug.) annual rate, billions	$4,677.7	$4,664.7	6
ORDERS FOR DURABLE GOODS: MFG. (Aug.) billions	$127.0	$128.0	0
HOUSING STARTS (Aug.) annual rate, thous.	1,127	1,147	–14
BUDGET SURPLUS OR DEFICIT (–) (Aug.) millions	–$52,754	–$25,934	–138

Sources: Commerce Dept., Treasury Dept.

MONETARY INDICATORS

	Latest week	Week ago	% Chan year a
MONEY SUPPLY, M1 (9/10)	$820.5	$820.0	4
BANKS' BUSINESS LOANS (9/12)	316.7	317.7r	–0
FREE RESERVES (9/19)	33	279r	–96
NONFINANCIAL COMMERCIAL PAPER (9/12)	148.8	146.2	17

Sources: Federal Reserve Board (in billions, except for free reserves, which are expressed as two-week period averages in millions)

MONEY MARKET RATES

	Latest week	Week ago	Year ago
FEDERAL FUNDS (9/25)	8.35%	7.87%	9.02
PRIME (9/26)	10.00	10.00	10.50
COMMERCIAL PAPER 3-MONTH (9/25)	8.14	7.94	8.72
CERTIFICATES OF DEPOSIT 3-MONTH (9/26)	8.30	8.01	8.88
EURODOLLAR 3-MONTH (9/19)	8.09	7.99	8.75

Sources: Federal Reserve Board, First Boston

= Raw data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipme
1 = Western Wood Products Assn. 2 = Southern Forest Products Assn. 3 = Free market value NA = Not available r = revised NM = Not meaningful

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COLORADO
Porter's Place - Denver
CONNECTICUT
Grossman's - Greenwich
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Kemp's Shoe Salon - Delray Beach
Macy's - Select Stores
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Globe Shoe Company - Savannah
Macy's - Select Stores
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Readers Report

WHAT'S WRONG WITH THE CIVIL RIGHTS BILL

Your editorial "Please sign this bill, Mr. Bush" (Editorials, Sept. 3), urging the President to sign the Kennedy-Hawkins "civil rights" bill, is not only wrong, but self-contradictory.

You acknowledge that "the legislation would go further than" simply overturning several of last year's Supreme Court decisions. Yet you ultimately urge the President to sign the bill because "much of the legislation, after all, returns the law to the way it was. . . ."

You also say that the law will not hurt business because discrimination is inefficient. I agree that discrimination is inefficient, but a principal reason for the Administration's opposition to the bill is because it will cause discrimination—that is, racial quotas. And it will place significant burdens on businessmen and women.

Let me be clear: The President wants to sign a civil rights bill. And last May, he listed the requirements for such a bill: It must not be a quota bill; it should be consistent with fundamental notions of fairness in our legal system; and it should contain a meaningful deterrent against workplace harassment without producing a bonanza for lawyers.

Kennedy-Hawkins would put pressure on employers to adopt quotas. It would do so because of the rules it imposes in cases of alleged unintentional discrimination. These are cases where it is claimed that neutral employment practices operate to create a "statistically unbalanced workplace" in terms of race, for example.

Kennedy-Hawkins would make it extremely difficult for employers to defend themselves in these cases, because it would place upon them the burden of justifying the validity of virtually all of their employment practices. Under these circumstances, knowing that the only guarantee against litigation is to maintain a "correctly" balanced work force, employers would be under pressure to resort to the most cost-efficient option: quotas.

Kennedy-Hawkins also is contrary to fundamental notions of fairness in our legal system. In the type of case just described, it virtually would make an employer guilty until proven innocent—even when it is not alleged that he or she intentionally discriminated.

Another part of the bill would deny people "their day in court" by barring them, in a variety of circumstances, from challenging consent decrees that impose unlawful quotas. Still another part of the bill apparently would hold an employer responsible for discrimination even when discrimination did not cause the harm about which an employee is complaining.

The President has made it clear that meaningful relief must be available for discrimination, including on-the-job harassment. That goal can be achieved, however, without resorting to the costly litigation process that Kennedy-Hawkins would create.

John R. Dunne
Assistant Attorney General
Civil Rights Div.
U. S. Justice Dept.
Washington, D. C.

In its editorial supporting the Kennedy-Hawkins Civil Rights Act of 1990, BUSINESS WEEK has its logic exactly backward. Far from being the reason the bill should become law, your argument that it "would simply mandate what the labor market will force companies to do anyway" is precisely why the bill is an instant anachronism.

The critical decision President Bush will be making is not whether to sign a civil rights bill but whether to veto a quota bill. We're sure he'll do the right thing.

Jeffrey C. McGuiness
Chair, Lawyers' Committee
Fair Employment Coalition
Washington, D. C.

A GREAT AMERICAN LOOPHOLE FOR FOREIGN COMPANIES

Your recent article "Can Uncle Sam mend this hole in his pocket?" (International Business, Sept. 10) omitted mention of a very serious tax loophole open to foreign corporations that costs the U. S. billions of dollars annually.

Foreign-registered corporations are

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entitled to exemption from U. S. capital-gains taxes. This allows overseas companies to purchase stocks of U. S. corporations and sell them at a profit without incurring taxes. I am aware of a Hong Kong corporation that has made some $200 million in capital gains from the sale of U. S. company stocks without incurring any taxes on such sales, apparently quite legally. Our company has paid taxes averaging 46% of pretax income over the past three years, including taxes on capital gains.

U. S. companies are, for no valid reason, disadvantaged and foreign companies favored in our own nation. It clearly makes no economic or political sense, and billions of potentially budget-balancing dollars are at stake.

Wade F. B. Thompson
Chairman
Thor Industries Inc.
New York

WHO'S SHARING THE WEALTH NOW?

Ten years ago, the U. S. led the world in per capita income ("Why unions thrive abroad—but wither in the U. S.," Economic Trends, Sept. 10). The U. S. now ranks behind a growing number of countries, including Japan, West Germany, Sweden, Switzerland, and Denmark. This has more to do with the relative willingness of foreign businesses to share the wealth with front-line workers than with the "monopoly wage advantages" of American unions.

John M. Howard
Communications Workers of America
Washington, D. C.

THE WORST COMPUTER CRIMES ARE THE INVISIBLE ONES

Regarding Ernst & Young's "survey" of losses resulting from computer crime ("Viruses? Who you gonna call? 'Hackerbusters'," Information Processing, Aug. 6): As is the case with counterfeiters, the essence of a successful computer crime is that the victim never be aware that a crime has been committed.

Tony Lima
San Carlos, Calif.

HOW HUMPTY-DUMPSTER HAD A GREAT FALL

Your article "Can Carrier Corp. turn up the juice?" (The Corporation, Sept. 3) mentions that Robert Daniell's program to revitalize the company includes cost cutting, refocusing, spinning off assets, and selling off "a dumpster business."

The "dumpster business" in question was not just any old dumpster business, but *the* dumpster business: Dempster Brothers. When Carrier bought Dempster, the company enjoyed a large market share in a relatively small market, the specialty refuse-handling business (read trash). Carrier moved Dempster into the residential refuse-handling business, making it a very small fish in a large body of water populated by some very hungry sharks.

Needless to say, this move ruined a fine franchise and led to the dissatisfaction within Carrier.

There oughta be a law!

Lucien Ruby
San Francisco

CORRECTIONS & CLARIFICATIONS

In "With job training, a little dab won't do ya" (Labor, Sept. 24), we incorrectly said that researchers Sylvia Scribner and Patricia Sachs had studied job training at an electronics plant for a month and a half. Their study lasted a year and a half.

HOME IS WHERE THE LAPTOP ISN'T

Despite your optimism, I still question whether the home-computer market will explode to the degree you indicate ("Home computers," Cover Story, Sept. 10). The last thing Dad will want to do after the workday and dinner is track budgets and inventories; the 19-year-old college freshman daughter will have a myriad of campus workstations, with no telephone or TV diversions to cope with; Junior will still choose Bart Simpson over term papers; and Mom will compete with so many work-at-home mothers that her profit margins will be squeezed to bytes (make that bits).

Random Access Memory? How about forgetting the laptop at work!

Henry Stein
Minnetonka, Minn.

THE GETTYS: CAPITALISTS WITH CONSCIENCES

As a person of redistributive politics and scant material wealth, I would not expect to be rising to the Gettys' defense, but the Gordon and Ann that I have met are entitled to better than your article gave them ("Meet the dilettante dealmakers, Gordon and Ann Getty," People, Aug. 13).

In an age of greed and corruption, I have found them to be generous and principled. I doubt I would have had the inner resources to focus my life on art and sciences were I to have inherited—or married—the Getty fortune.

John B. Oakley
Professor of Law
University of California, Davis

BOOSTING BEER TAXES IS A SOBER IDEA

Anheuser-Busch President Patr Stokes writes in his letter ("T scheme to tax beer has fallen fla Readers Report, Sept. 10) that it is fair and makes little economic sense boost the tax on beer, which is alrea taxed at three times the rate of m consumer goods.

I say that it isn't fair to tax the n drinkers to pay for all of the econor costs caused by the consumers of be Studies show that the taxes on alcoh beverages do not come anywhere ne to paying for the costs that drink cause.

Stewart M. L
Chairm
Geneva Colle
Beaver Falls, I

THE THRIFT FIASCO: BORN IN THE ROTUNDA

One need not be surprised ("The r culprits in the S&L mess," Edito als, Sept. 10) that 55% of the pub blames thrift insiders while only 1 blames the Congress for the savings a loan crisis. The sheer difference in sc between the personal gains made these two groups, at least as reported the popular press, puts the thrift ins ers in the limelight.

The public's ire is indeed aimed those who took advantage of the feedi trough the politicians created. Such fe ing troughs do not materialize for itously, but are won through intense a relentless lobbying by industry grou Perhaps the public thinks that Washi ton was a foot soldier rather than managing partner in the savings a loan crime.

Richard PonA
Professor of Finan
California State Univers
Chico, Ca

GARY BECKER'S INSCRUTABLE LOGIC

To BUSINESS WEEK:

"Reforming Congress: Why limiti terms won't work," by Gary S. Beck (Economic Viewpoint, Aug. 6).

"Life tenure for judges is an id whose time has gone," by Gary Becker (Economic Viewpoint, Sept. 3)

Wow.

Jim Clevela
New London, N.

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Books

AGENTS OF INFLUENCE: HOW JAPAN'S LOBBYISTS IN THE UNITED STATES MANIPULATE AMERICA'S POLITICAL AND ECONOMIC SYSTEM
By Pat Choate
Knopf • 295pp • $22.95

LOOK WHO'S LOBBYING FOR JAPAN INC.

CHOATE: THE U.S. IS "SURRENDERING" TO JAPANESE POLITICAL AND ECONOMIC CONTROL

Throughout Washington, folks will be reading this book backward. That's because its appendix names some 200 top officials of the Administration and Congress who have parlayed their connections into gainful lobbying jobs for foreign interests, principally the Japanese. It also lists the considerable sums of money they have received.

Now, such a list by itself might not sound like a must read outside the Beltway. But inside Washington, the anticipated publication of *Agents of Influence* has generated trepidation and dread for months. Angry accusations of racism and McCarthyism have been directed at author Pat Choate, a mild-mannered economist until recently kept on the payroll of conglomerate TRW to hector Congress—and write two books—about declining American competitiveness.

But Choate's new book is much more than a list of capital sellouts who have passed through the revolving door from civil service to lobbying. Rather, it's an attempt to reveal how much international business and economic competition now depends on pulling Washington's political strings—and how often the outcome is harmful to the U. S. For the most part, Choate blames America for its own weakness and politicians and top bureaucrats for their greed and lack of patriotism, rather than accusing Japan of any villainous intent.

All together, there are 3,500 re tered foreign agents for 161 countrie Washington. Perhaps twice that m have escaped registration through s loophole, Choate says. The Japa spend more than anyone else: Some Japanese government agencies and c panies are able to hire as their mo pieces people who recently held high U. S. offices.

To Washington insiders, the no that there might be something about selling influence and access to eigners is apostasy. Washingto above all a city of lawyers, and law believe that everyone, even a murde deserves the best representation he buy. The very essence of the busines Washington is packaging and selling fluence. It is considered no more ne ious there to lobby for, say, rela standards on baby-food labeling, tha is in Detroit to manufacture cars c California to grow avocados.

Choate acknowledges that legally, eigners are entitled to the best repre tation they can obtain, but he justifi attacks the cynicism and the "collap ideals of public service and civic vir that make it so easy to arrange America to attack itself. Thus, he s the Justice Dept. attorney recentl charge of extraditing cocaine dealer the U. S. has suddenly gone to work the bosses of Colombia's Cali coc

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cartel. The State Dept. expert on high-technology trade talks with Japan signed on with Fujitsu, taking with him his detailed knowledge of America's negotiating strategy. The former chairman of the Senate Foreign Relations Committee, Frank Church, went to work for the Japanese government. Four of the last eight U. S. Trade Representatives—America's top trade negotiators—became lobbyists for foreign concerns, three of them for Japan. The Japanese hire so many insiders, Choate maintains, that they have a better overview of what's happening in the federal government than all but a handful of Administration officials. As a result, he writes, America is "surrendering to the political and economic control" of Japan.

All this costs the Japanese an enormous sum. Choate calculates that Japan's total U. S. lobbying bill runs to $400 million a year—roughly equal to the total amount spent on all 1988 House and Senate campaigns. Japan outspends the combined budgets of the U. S. Chamber of Commerce, the National Association of Manufacturers, the Business Roundtable, the Committee for Economic Development, and the American Business Conference—Washington's top business organizations. Is it worth it? Japan avoided more than $500 million a year in import duties just by lobbying the Treasury Dept. to reclassify so light trucks as cars, Choate estimate

Japan must undertake this vast effo Choate says, because Tokyo business terests insist on closing Japan to impo while exploiting markets abroad. Japa political system, moreover, is but a c rupt adjunct of those interests, incapa of halting such unscrupulous practi as dumping, price-fixing, and bid-r ging. So the Japanese deflect calls open their own market with a variety contrived excuses—Japanese investm is creating jobs for Americans; Japa critics are racists; cultural differen explain the lack of imports; Japan changing its ways—that are parroted their American hirelings. Meanwh Choate adds, American companies t seek to hire former Japanese officials lobbyists are virtually shut out in Tok The Japanese political system disco ages the practice—and besides, Japan companies snap them up first.

Congress recently passed a law t will slow the revolving door somewh but hundreds can be expected to def before the law takes effect next Ja ary. As they leave, perhaps each sho be given a copy of Choate's detailed a disturbing book.

BY PAUL MAGNUSS

Washington correspondent Magnusson c ers international trade policy.

BY BUSINESS WEEK WRITERS

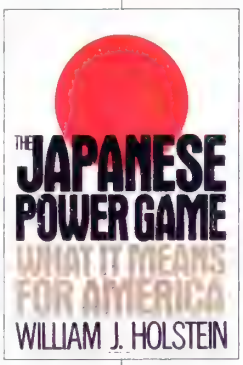
WHERE VALUES COLLIDE

THE JAPANESE POWER GAME: WHAT IT MEANS FOR AMERICA
By William J. Holstein
Scribners • 399pp • $22.95

Behind the economic clash souring U. S.-Japan relations, there's a separate confrontation of culture and values. Americans are at a disadvantage, writes William J. Holstein in *The Japanese Power Game*, because they misunderstand their rival. Japan is not, as many believe, becoming more democratic and more liberal, writes Holstein, a BUSINESS WEEK associate editor. Americans will need cohesion and a sense of mission to meet Japan's economic challenge.

The book's core is a detailed analysis of the Recruit stock-trading scandal, which in 1989 briefly paralyzed Japan's ruling Liberal Democratic Party. Many Western observers thought Japan's corrupt political machine was at last in for reform. But the LDP emerged unrepentant.

Holstein sees the scandal as a meta-



phor for the resilience of "deep cons vative forces" in Japanese society t thwart the advancement of women a minorities, shackle consumers, and voters of choice. The same values foll Japanese corporations overseas. A given Japan's economic victories, says, the Japanese aren't inclined question the system.

The values of the U. S. and Japan overlap, Holstein notes. Both prize po cal stability and want to preserve in national trading and financial syste He also praises the Japan work ethic. But in their qu for business efficiency, says, the Japanese negl equality and fairness.

Holstein calls for the U to wean itself from Japan lending and to promote an dustrial policy that would rect funds to promising te nologies. Foreign investm he says, must be manage advance U. S. interests. U consumers should le about Japan and think more ab America's national goals. In an ic world, Holstein admits, such "econo patriotism" would be unnecessary. in this world, "It's a question of wh rules and whose values will prevail."

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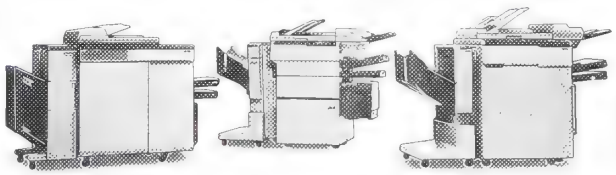

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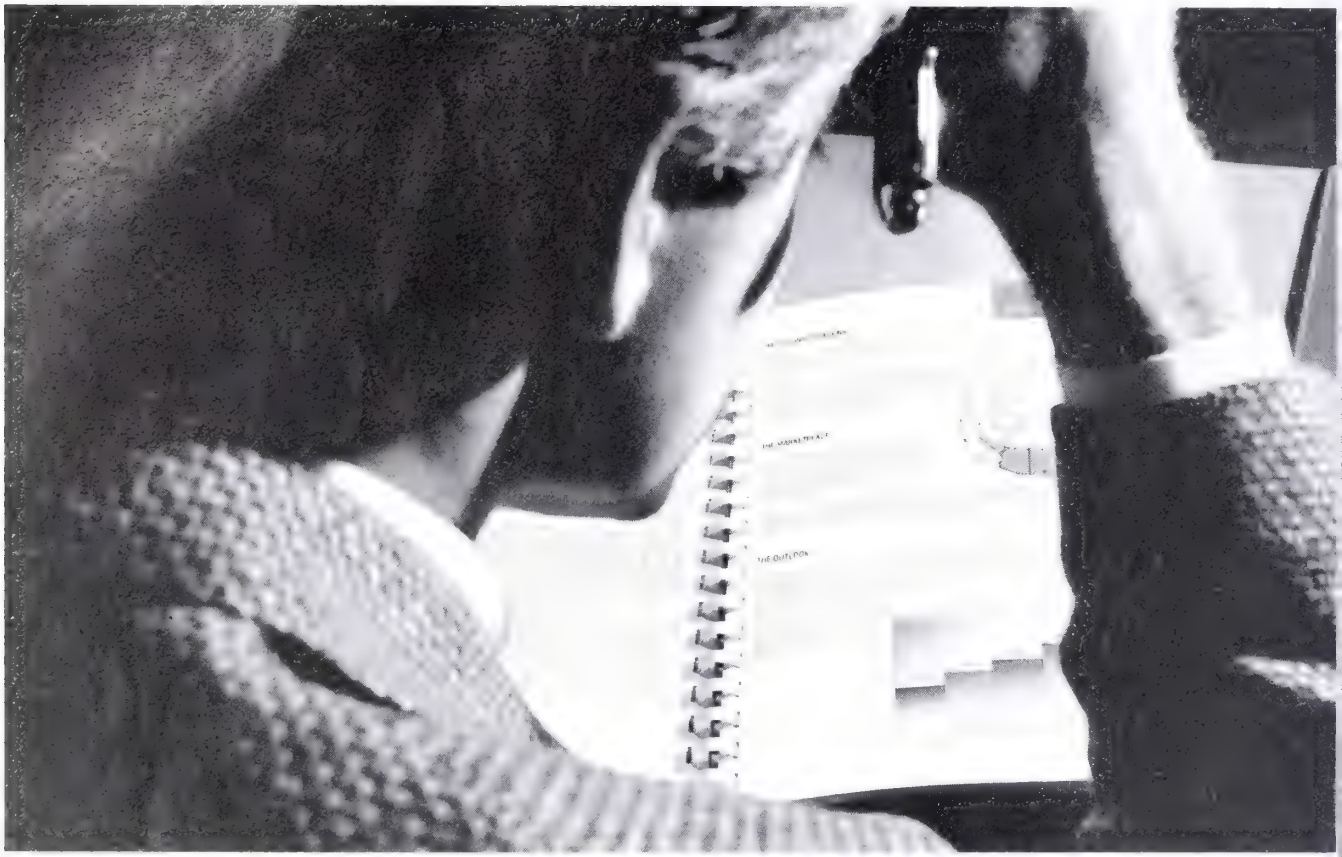

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INTERNATIONAL PAPER

THERE ARE CAPITALISTS, THEN THERE ARE THE JAPANESE

BY ALAN S. BLINDER

Adam Smith would be appalled at the success of Japan, since it breaks so many of the rules capitalism. But is its system really capitalism, or an entirely different breed of economic cat?

Much has been written about Japan's formidable challenge to American industrial preeminence. But the amazing Japanese economy poses another challenge—one that has barely been noticed. I refer to Japan's challenge to received economic doctrine. Stated briefly and far too boldly, the Japanese have succeeded by doing everything wrong (according to standard economic theory). That should make economic theorists squirm.

But isn't inadequate economic theory a problem for the ivory tower, not the executive suite? No. Our intellectual conceptualization of the Japanese economic system undergirds policies toward Japan. If our picture is distorted, our policies will be, too.

DIFFERENT ANIMAL. Studying the Japanese economy has led me to a tentative conclusion: that market capitalism, Japanese-style, departs so much from conventional Western economic thought that it deserves to be considered a different system. As a top official of Japan's fabled Ministry of International Trade & Industry (MITI) once put it: "We did the opposite of what American economists said. We violated all the normal concepts." Here, I can only deal briefly with a few "normal concepts" that Japan has "violated" so successfully.

According to conventional wisdom, the economic system exists to serve the wants of consumers; a productive economy is a means to help King Consumer live well. Business managers, Adam Smith taught us, are driven to do consumers' bidding not by benevolence but by the search for profits in a competitive marketplace. To serve their stockholders, they must serve the public by innovating and holding down costs. That is the essence of the invisible hand—one of history's great ideas.

The Japanese see things differently. Their priorities put producers, not consumers, on the economic throne. Japanese businesses seek profits, to be sure, but not for their stockholders. They want them, instead, as the wellspring of growth, which they see as an integral part of nation-building. It is sometimes said that Japanese companies maximize long-run rather than short-run profits. But, according to Western doctrine, expected long-run profits should be reflected in the stock market. Japanese managerial decisions are rarely driven by stock prices.

According to American doctrine, monopolies and cartels are economic pathologies. We are also wary of vertical integration, because captive suppliers or retailers may serve the interests of the dominant company rather than those of consumers. We worry that cozy relationships between upstream and downstream companies may lead to inefficiencies, so we favor arm's-length deals in which buyers seek the lowest prices. All this is reflected in our laws.

Across the Pacific, we find instead the *keiretsu*—the ultimate vertically integrated megacompany. When major Japanese manufacturers purchase components, they often do not seek out the lowest-cost provider. They look instead to their regular supplier, often part of their *keiretsu*. The same is true of financing and, in some cases, of retail outlets. To our way of thinking, such restrictive practices lead to higher costs. To their way of thinking, long-term, reliable relationships cut costs as business partners learn from and help one another. Who is right? I'm not sure. My only claim is that the Japanese do not do business the American way.

Neither does their government. Japan's authorities permit or even encourage cartels to keep out foreign competitors, to "rationalize" declining industries and to foster cooperative research and development. Its ministries are active partners in long-term industrial planning. In America, such activities are considered foolish or taboo.

'MISTAKES'? Western economic thought holds that free trade is the best system for all: It lowers prices for buyers and helps each nation exploit its comparative advantage. The gradual acceptance of this idea over the course of two centuries has been a tonic for the world. Yet foreign producers selling goods also made in Japan find the Japanese market impenetrable. The Japanese seem to seek a degree of economic autarchy that standard theory sees as inappropriate.

Japanese labor relations differ from ours in many ways that look like "mistakes" to American eyes. Wages are tied too closely to seniority. Salary differentials by rank are too small. Promising young managers must wait too long for promotions. Retirement comes too early. The system makes it inordinately difficult to change companies. And almost nothing gets you fired.

All in all, economists weaned on Western economic thought must conclude that Japan does almost everything wrong. Such a litany of errors should cost them dearly. Yet Japan's economy is a dynamo. How do they do it?

American capitalism rests on a grand theory begun by Adam Smith. There is no comparable theory of Japanese capitalism, but we need one if we are to formulate an intelligent economic policy toward Japan. The Japanese themselves seem less concerned with conceptualizations than with results. So, we may have to produce that theory ourselves. ▣

AN S. BLINDER IS THE GORDON S. RENTSCHLER MEMORIAL PROFESSOR OF ECONOMICS AT PRINCETON AND THE AUTHOR OF *HARD HEADS, SOFT HEARTS*

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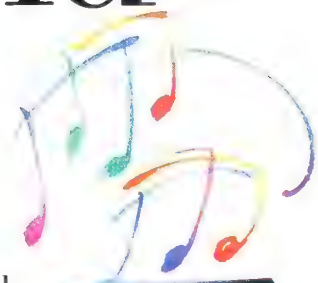

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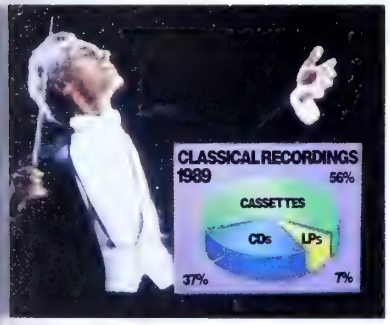

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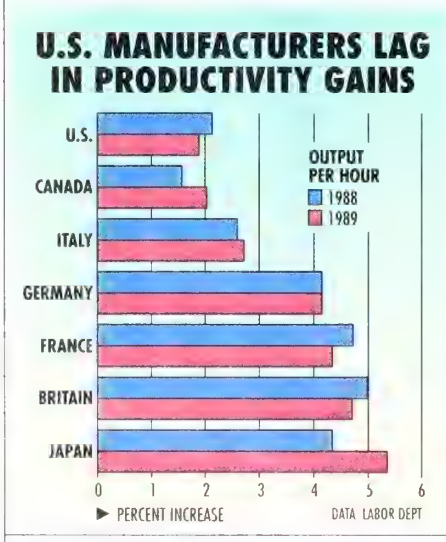
BY GENE KORETZ

THE SURGE IN FACTORY PRODUCTIVITY LOOKS LIKE HISTORY NOW . . .

As if the economy weren't facing enough problems, the relative productivity performance of U. S. industry appears to be deteriorating again. According to preliminary government estimates, output per hour in manufacturing last year grew just 2%, a slower pace than in all but one of 11 other industrial countries. That marks the second consecutive year that U. S. manufacturers have trailed the pack (chart).

The latest numbers could signal a reversal in what only a few years ago appeared to be a remarkable resurgence in American industrial productivity. When factory output per hour in the early postwar period grew more slowly in the U. S. than in most other industrial nations, no one was surprised or alarmed, since war-ravaged nations naturally posted hefty gains as they rebuilt



their shattered industries. In the 1970s, though, when U. S. plant productivity growth slowed far more sharply than in most other advanced nations, fears began to surface that foreign industry would overtake and surpass American manufacturers. The apparent "deindustrialization" of America in the early 1980s seemed to bear these fears out.

The outlook brightened considerably in the recovery following the 1982 recession. Forced to turn lean and mean, U. S. industry began to achieve productivity gains that exceeded those experienced in the entire postwar period. In fact, U. S. manufacturers even managed to outpace some of their major foreign competitors.

Recently, however, the pendulum has swung in the opposite direction, and concern is growing that the latest slowdown may be more than a cyclical phenomenon. To be sure, U. S. manufacturing productivity seems to have perked up in the first half of this year, as factories pared payrolls. But with the Japanese and German economies expanding at a 4%-to-5% annual rate, industrial productivity overseas undoubtedly picked up steam as well.

More important, the increasing sluggishness of U. S. capital investment has clear long-term implications. Indeed, the current cutbacks in capital spending at a time when capital-spending booms are fueling overseas economies almost guarantee that America's relative industrial productivity performance will suffer for a long time to come.

. . . AND THE LITTLE GUYS MAY BE LEADING THE RETREAT

If U. S. industrial productivity is to regain a competitive edge, argues economist Daniel Luria of the Industrial Technology Institute of Ann Arbor, Mich., a lot more attention will have to be paid to small and midsize manufacturing companies. "That's where productivity lags are most prevalent," he says.

According to ITI's *TechnEcon* newsletter, of the 19 million people with manufacturing jobs, 7 million work in large businesses—some 6,000 establishments with 500 or more employees. These plants, which mainly turn out end-use products, have large financial and managerial resources and are often unionized. Because they're quick to adopt new technology, they maintain healthy productivity growth and can afford to pay relatively high wages.

But it's the 120,000 or so medium-size or smaller plants, employing 20 to 500 workers each, that are the core of the nation's industrial base, claims Luria. Such companies, which supply the components and materials used by larger manufacturers, account for 55% of industrial employment and are growing in significance as large companies continue to outsource production.

The problem is that these companies aren't keeping pace with their larger industrial customers in deploying new technologies and systems to enhance productivity. Luria estimates that while such establishments were 20% less productive than larger ones in 1967, the gap in value added per employee has now widened to nearly 30%. And they're behind their overseas competitors as well. "One reason that industrial productivity growth is faster overseas," says Luri "is that smaller firms in Northern E rope and Japan are technically more a vanced than in the U. S."

ARE FOREIGN BANKS STARTING TO TIGHTEN THE CREDIT SPIGOT?

With U. S. banks facing growing nancial problems and restrainir their own credit policies, much of th slack in business lending has been take up by Japanese and other foreign bank Indeed, not too long ago, subsidiaries foreign banks were accounting for 80 of the growth in commercial and indu trial loans (BW—June 25). Now, howe er, that credit spigot will also tighte predicts economist Robert A. Schwar of Merrill Lynch Capital Markets.

A big reason for this shift, sa Schwartz, is the battering Japane banks have received in the slumpir Japanese stock market. With the Nikk 200 index down by nearly 40% this yea the capital bases of Japanese bank which can include 45% of their unre ized capital gains, have shrunk signi cantly. As a result, they are restrainir asset growth to meet capital-adequa standards—and apparently are reduci dollar-denominated assets in the proce

Already, foreign-related banks (inclu ing non-Japanese banks) have sold billion in Treasury securities since Ju one-third of their holdings. "Becau Treasuries are so liquid, they're the ea est asset for Japanese banks to she notes Schwartz. "But lending to U. business will probably feel the h next." Another reason to retreat: A cording to Japanese newspapers, Ja nese banks in New York are holding billion in nonperforming LBO loans.

A PAINFUL EXPORT SLOWDOWN SEEMS 'ALL BUT INEVITABLE'

Just how dependent is the economy exports? Economist Lawrence Kro of Shearson Lehman Brothers Inc. no that while gross domestic product gr by $30.5 billion in 1982 dollars in three quarters ended in June, expo rose by $33.9 billion. "Domestic dem for U. S. output actually declined," says, "indicating that the economy acutely vulnerable to an export sl down." And with soaring oil prices st ing to constrain economic growth o seas, Krohn believes that such slowdown is "now all but inevitable.

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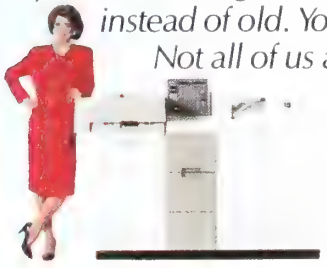

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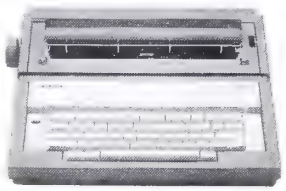

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OCTOBER 8, 1990

BY JAMES C. COOPER AND KATHLEEN MADIGAN

BUSINESS ECONOMISTS PREDICT GLOOM —AND THEY'RE THE OPTIMISTS

It's the time of year when Corporate America looks to economists for help with 1991 business plans. This year, the economists should ask for hazardous-duty pay. Forecasting will be especially perilous amid the threat of war in the Middle East, unstable oil prices, and policy uncertainties at home. On top of that, a U.S. recession looks increasingly imminent, with each new set of economic data only adding to the urgency of the task.

The first consensus view of the 1991 economy since the oil shock took shape in Washington, at the annual meeting of the National Association of Business Economists on Sept. 23-27. The fallout from the gulf crisis and the direction of monetary policy were foremost in the minds of most economists. Those are the two biggest unknowns clouding the outlook.

Through the haze, the forecasters see real gross national product growing by 1.9% next year, measured fourth quarter to fourth quarter (chart). For this year, they expect economic growth of only 1.1%. Both projections are down sharply from the May forecasts, which predicted gains of 2.1% in 1990 and 2.5% in 1991.

Higher oil prices will boost inflation, as measured by the consumer price index, to 5.8% this year, say the economists. That's 1.1 percentage points above the May expectation. However, the forecasters remain sanguine on the price outlook for 1991. They expect the CPI to rise 4%, little changed from their May assessment.

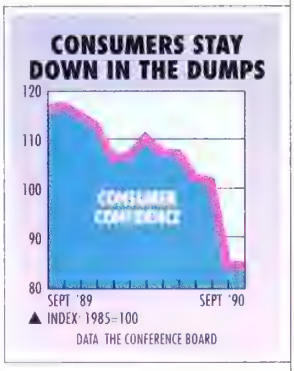
Given the combination of sluggish growth and lower inflation, the economists look for interest rates to end 1991 lower than they are now. But short-term rates will drop further than long-term yields. Three-month Treasury bills will average 7% next year, they say, while 30-year Treasury bonds will yield around 8.3%.

CONFIDENCE IS WANING ACROSS THE LAND

Of course, there's a key rule in forecasting: The consensus is usually wrong. In this case, the business economists may well be too optimistic, particularly on economic growth.

The Commerce Dept. made its final revision of second-quarter GNP on Sept. 25—and it was a shocker. It revised growth downward to an annual rate of only 0.4%, from 1.2% previously reported. A wider trade deficit and lower inventory growth accounted for the adjustment. During the past year, the economy has grown barely 1%—one of the weakest nonrecession performances in the postwar period.

Moreover, the second half is shaping up poorly. The data for August were uniformly negative, and the full impact of the oil shock hasn't even hit the numbers yet. The latest in the litany of poor August reports include weakness in consumer spending, slowing growth in disposable income, further softness in factory orders, a decline in new construction contracts, and more bad news on the federal budget deficit.



The latest data seem consistent with the general mood of consumers and businesses. Expectations for fourth-quarter sales and profits dropped to their lowest in more than seven years, according to an August survey of 1,500 executives by Dun & Bradstreet Corp. Optimism fell in all nine geographic regions. Dun & Bradstreet notes other signs of stress: Small-business bankruptcies and downgradings of credit ratings are both up.

The mood among consumers is equally downbeat. Consumer confidence had dropped in August to its lowest level since the 1981-82 recession. According to the Conference Board, it stayed there in September. The board's index languished at 84.7 last month, a hefty 17 points below the level in July, immediately before the gulf crisis (chart).

BUDGET GRIDLOCK DIMS THE OUTLOOK

The last-minute wrangling over the 1991 budget only adds to the uneasiness. It has prevented the Federal Reserve Board from its promised easing of monetary policy, which would help to stave off a recession.

Meanwhile, the White House and Congress seem content to play chicken over the automatic cuts required on Oct. 1 by the Gramm-Rudman Act, while the fate of the economy hangs in the balance. The huge cuts dictated by Gramm-Rudman—if sustained over a long period—would be a fiscal blow that would dwarf the contractionary effects of the oil shock.

The 1990 budget deficit is beyond help. The Treasury reported an August gap of $52.8 billion, more than double the red ink in August of last year. With one month left in the fiscal year, the 1990 deficit stands at $241 billion. The August number was inflated because the Labor Day holiday caused wages and benefit payments

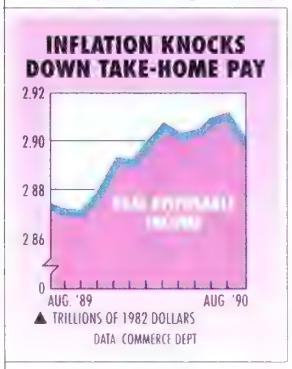
to be paid earlier than usual. As a result, the Treasury may post a bigger-than-normal surplus in September, but it's unlikely to be big enough to keep the 1990 deficit from being one of the largest in history.

CONSUMERS HOLD TIGHT TO THEIR PURSES

But with or without a budget deal, most forecasters agree that the outlook will turn on consumer spending. That could be a problem: Incomes were slowing down prior to the oil shock, and higher energy bills will erode buying power even further.

It's already happening. In August, consumer outlays rose 0.5%, to an annual rate of $3,690.5 billion. But all of the gain went to higher prices. Adjusted for inflation, spending dipped by 0.1%, the fifth decline this year.

The jolt at the gas pump took a toll in August. Although purchases of nondurable goods, including gasoline, increased a hefty 0.9%, when adjusted for prices, spending was unchanged from July. Car sales were also especially poor in August, and that accounted for all of the 1.2% drop in real purchases of durable goods. Inflation-adjusted spending on services edged up just 0.1%.



Service spending will probably bounce back—it rarely falls, even in a recession—but goods purchases are unlikely to rebound. Real spending on goods is already down 2% from a year ago, and the uncertainties of both the Middle East crisis and future taxes make it doubtful that real spending on goods will have much zip in the second half.

That's especially true because growth in personal income is slowing down at the same time that inflation and taxes are taking a bigger bite out of paychecks. In August, personal income rose a modest 0.3% to an annual rate of $4,677.7 billion. But after adjusting for th jump in prices and higher taxes, real disposable incom dropped by 0.3% (chart). This suggests that real dispo able income grew little, if at all, in the third quarter.

Incomes in the factory sector have been hit particula ly hard, reflecting the loss of some 450,000 jobs sinc January of last year. Manufacturing pay has grown b just 1.5% during the past 12 months, less than half of it 3.4% pace of a year earlier.

FACTORY ORDERS ARE GOING NOWHERE

The slump in the factory sector als shows up in manufacturers' order book New orders received by makers of dur ble goods fell 0.8% in August, to $12 billion. Orders have not gained any ground since earl 1989. And given the poor outlooks for both consume and capital spending, they aren't likely to go anywher but down in coming months either.

Many factories have been living off of their backlog c unfilled orders, but without new demand, that cannc continue indefinitely. The order backlog fell 0.3% in Au gust, the second decline in the past three months. An excluding aircraft, unfilled orders have been fallin sharply for more than a year.

Add it all together, and it's reasonable to conclud that the more pessimistic among the business economist may be closer to the mark. Recession forecasts for eithe this year or next remain in a minority—but the numbe is growing. About 45% of the economists surveyed be lieve that a recession has either already begun or wi begin by the first quarter of 1991.

But nearly all the forecasters are hedging their bets Some 97% admit that the chances of a recession hav increased during the past three months. The economist rate the median probability of a downturn during th next year at 50%, up sharply from 20% in May. Indeed, i the September data look anything like those for August recession may become the consensus forecast.

THE WEEK AHEAD

NAPM SURVEY

Monday, Oct. 1, 10 a.m.
Economists expect the September Purchasing Managers' Index, compiled by the National Association of Purchasing Management, to decline to 46% from 47% in August. That's the consensus projection, according to McGraw-Hill Inc.'s MMS International. A reading below 50% means that manufacturing is in a recession. Given the sharp drop in a similar measure for the Philadelphia region, the decline could be steeper.

CONSTRUCTION SPENDING

Monday, Oct. 1, 10 a.m.
Construction spending for August probably fell 0.6%, according to the MMS consensus, following a 0.4% increase in July. That's consistent with the continued weakness in construction employment and the downward trend in construction contracts.

NEW SINGLE-FAMILY HOME SALES

Tuesday, Oct. 2, 10 a.m.
The MMS consensus projects that sales of new single-family homes fell to an annual rate of 535,000 in August, from 548,000 in July. High interest rates and uncertainty generated by the gulf crisis will keep sales depressed.

FACTORY INVENTORIES

Wednesday, Oct. 3, 10 a.m.
Manufacturers' inventories probably rose slightly in August, reflecting weak demand. Some of July's large 0.7% in crease appeared to be unintended.

EMPLOYMENT

Friday, Oct. 5, 8:30 a.m.
Economists expect payroll employmen to remain unchanged in September afte falling by 75,000 in August. They lool for yet another decline in factory pay rolls totaling about 24,000 jobs. The un employment rate is expected to remai unchanged at the August rate of 5.6%.

INSTALLMENT CREDIT

Friday, Oct. 5
Consumer credit in August likely ros $1.4 billion, according to the consensu expectation. That's much smaller tha July's $4.5 billion gain.

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AGONY AT CHASE MANHATTAN

CAN INCOMING CEO LABRECQUE KEEP THE BANK INDEPENDENT?

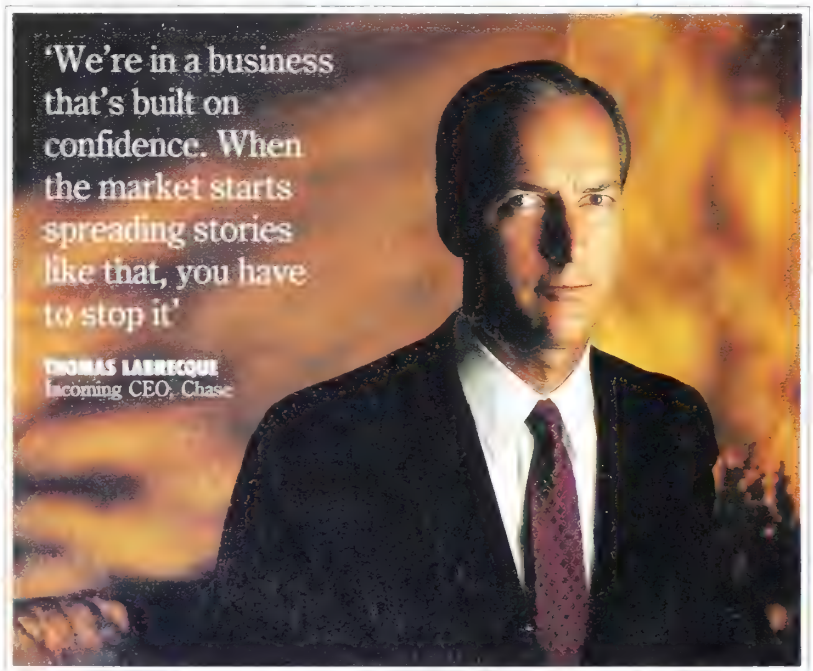
Rumors. Thomas G. Labrecque has come to despise them. And fear them. In recent weeks, the CEO-in-waiting at Chase Manhattan Corp. has heard tales about his bank's inability to raise funds, about its need to draw cash from the Federal Reserve, and even reports from Europe that the bank was filing for bankruptcy. Labrecque dismisses the stories with the icy demeanor that has become his trademark. But he doesn't belittle the danger posed by the rumors. "We're in a business that's built on confidence," he says. "When the market starts spreading stories like that, you have to stop it."

The bank's actions make the point more emphatically. On Sept. 21, Chase announced that it will slash its work force by 12%, write off $275 million of bad loans, and pump another $650 million into the reserves set aside to cover future loan losses.

The proud bank of the Rockefellers has even swallowed what bankers once considered the financial equivalent of hemlock: To conserve capital, Chase cut its dividend by more than half.

The moves, which marked the second big turnaround plan in about a year, came after months of agonizing by executives. And in the final weeks, plans were speeded up as the financial markets became more skeptical over Chase's future. The markets remain a tough audience. Chase's stock fell from 14⅛ right after the announcement to 11⅛. So far, Chase's share price has tumbled 35% since the end of August. And if that wasn't bad enough, Moody's Investors Service Inc. on Sept. 25 downgraded Chase's debt for the second time in the space of three months. The next day, Standard & Poor's Corp. followed suit. Moody's even sent Chase's subordinated debt to below investment grade, the equivalent of junk bonds.

Labrecque, who officially takes over as CEO on Oct. 31, will be hard-pressed to preserve the preeminent reputation long enjoyed by Chase, which ranks No. 2 in size behind Citicorp, among U. S. banks.



He concedes he's at the mercy of the unpredictable real estate market. But Labrecque insists the latest cutbacks should keep the bank on course. Others are not so sure. "Chase had visions of being one of the major global institutions," says Frederick Hammer, an investment adviser and former head of Chase's consumer business. "Its days of dominance across the board are over."

That's sobering. But what's worse is the possibility that Chase, as it tries to come up with the capital it needs for future growth and to keep banking regulators happy, might not be able to maintain its independence. The board has already discussed the possibility of a merger. As for Labrecque, he doesn't rule out a merger eventually. "My issue is to get the ship right, and we will evaluate all of those options," he says.

Given the array of problems, some analysts and former executives wonder whether Labrecque, 52, can pull the bank out of the mire. Tall and lean, with elegant good looks, Labrecque has little in common with his predecessors. He didn't come from a privileged background as did his mentor, David Rockefeller. The son of a New Jersey judge and a graduate of Villanova, Labrecque joined Chase in 1964, after a four-year tour in the Navy that included a stint in Naval Intelligence during the 1962 Cuban missile crisis.

MUCH PAIN. Chase and Labrecque are not alone in having to deal with severe pressure (table). "Retrenchment Now" has become the motto throughout the banking industry as lenders are beset by intensifying competition and a rising tide of bad real estate, corporate, and foreign loans. Continental Bank Chairman Thomas M. Theobald, who announced plans in July to cut 900 jobs, or 12% of the bank's payroll, says commercial banks "are going to see employment drop by hundreds of thousands in the next few years." Ditto for dividends, whose steady payment in times of stress was once considered an essential signal of a bank's soundness. On the same day that Chase announced its retrenchment, Midland

CHASE'S FINANCIAL STRENGTH: MIDDLE OF THE PACK

NEW YORK MULTINATIONAL BANKS	Tangible stockholders' equity as percent of assets	RISKY LOANS: Third World loans as multiple of loss reserves	RISKY LOANS: Real estate as percent of domestic loans	RISKY LOANS: LBOs and similar as percent of total loans	Dividend payout as percent of 1991 estimated earnings
J.P. MORGAN	4.8%	1.0	11.1%	7.0%	40.9%
MANUFACTURERS HANOVER	4.3	3.0	15.5	8.0	72.9
BANKERS TRUST	4.1	1.2	12.9	17.3	27.9
CHASE MANHATTAN	4.0	2.3	40.1	5.9	42.9
CHEMICAL BANKING	3.4	2.0	35.3	7.7	68.0
CITICORP	3.3	3.2	46.6	5.6	48.8

Notes: Loan and equity data as of June, 1990. Figures reflect Chase dividend cut. Third World loans exclude trade-related exposure

DATA: FOX-PITT KELTON INC.

orp. in Edison, N. J., and Miami-based outheast Banking Corp. said they ould bolster their loan-loss provisions d slash dividend payments.

Chase's agony is remarkable in an industry where there's plenty of pain to around—because this is Chase. The ockefellers built the bank, and David ockefeller, now 80 years old, ran it for ears before finally relinquishing his at on the board in 1981. This is the nk where blue-chip companies and oil eikhs were sure to call when they needed money or financial advice. Chase's very logo is modeled on the globe, and municipalities and principalities alike counted on Chase to help them through the rough times.

Now, the rough times at Chase are underscoring the bleak future that the entire industry faces. The bank had some embarrassing slips in the 1980s, notably the disastrous oil-patch loans peddled by Oklahoma's Penn Square Bank and the failure of high-flying Drysdale Securities. But Chase had the strength to shrug off those problems and still cope with the declining business of corporate lending.

It hasn't been that easy this time. The latest restructuring caps a year-long effort that intensified in recent weeks as the bank's ability to secure funding became a concern. Last September, current CEO Willard C. Butcher stood before a hundred or so analysts at the bank's lower Manhattan headquarters to announce a broad program to sort out the bank's problems. It was an ambitious

effort, which included adding $1.15 billion to loss reserves as a way of resolving once and for all the bank's problems with Third World loans. Chase also raised $625 million in a new share offering to bolster its capital.

Labrecque insists the original plan was fine. But by the time the bank held its annual strategy meeting at Williamsburg, Va., in May, its fortunes had swerved for the worse. Earnings in the first quarter stood at an anemic $44 million, down 67% from a year earlier, largely because of unforeseen real estate woes. Chase's top 25 executives took a hard look at the numbers and started planning another restructuring.

Chase executives cobbled together a broad outline that Labrecque submitted to the board on June 20. Next, he told regulators that changes were on the way. Expenses were a big concern. With corporate and investment banking activities sagging, Chase was finding it expensive to keep the staff it had built up. In 1989, expenses other than interest had eaten up almost 74¢ of every dollar that the bank brought in, and by mid-1990, the number had risen to 75¢, tops among New York money-center banks.

At the same board meeting, directors voted to move up Labrecque's scheduled promotion by two months. Labrecque says the board felt that if he were to devise and implement a plan, he needed authority. He began to fill in the details of his plan over the summer. With the help of Arthur F. Ryan, head of Chase's consumer bank and Labrecque's personal choice to succeed him as president, Labrecque launched a review of Chase's businesses around the globe.

Trouble was, meantime the markets were growing restless. Both major ratings agencies downgraded Chase's credit in June. The soaring oil prices and interest rates brought on by Iraq's invasion of Kuwait raised the odds of a recession. Analysts began warning that real estate problems would intensify and that banks would have trouble with leveraged buyout loans. "The outlook worsened a lot after June," admits Labrecque.

RUMORS HIT. By September, most of the plan was complete. Labrecque had hoped to unveil the strategy when the company announced its third-quarter results on Oct. 15. But then the rumors hit. Most centered on Chase's difficulty in securing funding. The credit market had grown increasingly nervous by Sept. 11, when Chase had to reset the interest rate on $200 million worth of notes issued three years ago. Early indications were that the market would demand a stiff premium on top of the existing 9.66% yield. The night before, executives huddled at One Chase Manhattan Plaza to discuss pulling the issue. "We cou have easily redeemed the paper," reca Ryan. "But we would have had to tal $200 million out of capital to do it."

Chase Chief Financial Officer Micha P. Esposito Jr. objected. He feared th such a move would only feed the mour ing turmoil in the financial markets a argued that Chase should pay whatev it had to to satisfy investors. Labrecq agreed. "You end up damned if you and damned if you don't," he says. The the final blow fell: A General Accou ing Office report on Sept. 11 warn that 35 big banks might fail or ne federal funds over the next year. Cha had to set the new yield on its paper 13.02%, 4.92 points over the yield of tw year Treasury notes.

In a business where perception c become reality, Chase executives fear that the rumors about funding probler fed by the note episode were about cause severe damage. "There was co cern and general disbelief" at what t market was doing, recalls Ryan, w speculates that the rumors originat with arbitrageurs. Regardless, Chase e ecutives felt they could no longer wait announce their restructuring.

By the following Monday, Labrecq decided to announce the changes aft briefing the board and regulators. T rumors "weren't only affecting us, b

CHASE HAS PROBLEMS IN ITS FRONT YARD—AND WAY BEYOND

Chase's woes mean the bank may be forced to redefine its fundamental strategy—whom it serves and why. Through most of the 1980s, Chase was considered a smaller version of Citicorp, as the bank aimed to serve both consumer and corporate clients, here and around the world. Now, there's no mistaking how costly that strategy has become, and Chase is likely to face more painful choices—even, possibly, a merger

A SAO PAULO BRANCH: CHASE STILL HAS $1.7 BILLION IN LOANS TO BRAZIL OUTSTANDING

anks in general," Ryan says. When the oard gathered on Sept. 19, the restructuring plan didn't come as a surprise. Butcher announced the subject and urned the meeting over to Labrecque nd Ryan. The two outlined their plan, hich included slashing 5,000 jobs and aking a $350 million charge against hird-quarter earnings. The bank also ould have to report a ammoth third-quarter oss of $625 million (chart). he silver lining: The oves would show the arkets that Chase meant usiness.

If that weren't enough, en came a late entry: a ash in the dividend. Although Labrecque and yan acknowledged that it ouldn't raise a significant mount of money, it would end a clear signal to investors, depositors, and egulators that Chase was tent on fixing its problems. The board greed. "In view of the size of the problem, a dividend cut would show due diligence to strengthen the capital of the ank. It was a psychological issue," says hase Senior Director Edmund T. Pratt ., chairman and CEO of Pfizer Inc.

Next day, Labrecque notified Fed hairman Alan Greenspan, New York ed President E. Gerald Corrigan, and the Comptroller, Robert L. Clarke. The regulators were surprised that Chase had decided to accelerate its plans, Chase executives say, but they agreed with the timing. Then, on Friday, Chase announced its restructuring. Simultaneously, Chase executives phoned other money-center banks to inform them of Chase's steps. Chase employees got the bad news in a one-page memo. "Today's actions are as painful as they are unprecedented," the memo declared. "The times demand such."

The announcement has clearly curbed the volume of rumors. "Before the announcement people were questioning Chase's survival," says James J. McDermott Jr., director of research at Keefe, Bruyette & Woods Inc. "I hope that's over with." But many on Wall Street give the plan mixed reviews. Domestically, Chase has yet to reveal where it will make its cuts, though analysts reckon the cutbacks will be most severe in corporate lending and investment banking.

Plans to scale back in Europe, where most of the 1,600 layoffs of overseas personnel will take place, are viewed favorably by Wall Street analysts. With offices in 18 countries, Chase has suffered setbacks in Europe. The bank looked at a radical restructuring two years ago, but chose a modest one instead. "Much of it was only a plan to cut expenses," says Thompson M. Swayne, head of Chase's European operations. "There was no clear strategy to go forward."

Now, Chase is pulling back from marginal businesses in Europe. This area includes much of its retail banking, which ranges from home mortgages to credit cards. The cuts, Swayne says, will enable the bank to focus on its traditional strengths, such as private banking, investment banking, and custodial services. Moreover, there will be more emphasis by the bank on marketing services spread all across the Continent rather than country by country. Says Swayne: "We are not projecting wild revenue growth, but we should turn Europe into reasonably sound profitability next year and very significant profitability the year after."

BRAZILIAN HURDLE. Certainly, Chase has strengths. It is the second-largest issuer of bank credit cards, behind Citicorp, and Chase's card business has so far escaped severe delinquencies. The bank's $13 billion in residential mortgages seems to have avoided severe problems despite a deteriorating market in the New York area. But analysts are particularly concerned about commercial real estate. Loans to developer Donald Trump are a big worry. "No matter what management says, they can't change the fact that they have over $9 billion in commercial real estate exposure," says one institutional shareholder.

Then there's Third World debt. Chase and other big banks face a big Brazilian hurdle on Oct. 10. That's when the Brazilians will present a plan to work out $10 billion in arrears. Chase still has $1.7 billion in loans outstanding to Brazil. But there is no quick solution in the offing. Zelia Cardoso de Mello, Brazil's Economic Minister, insists that her country will only remit "what we can pay." But she won't say how much that is.

Labrecque is no stranger to tough negotiations. Unlike previous top execu-

ALE: A FURTHER SLUMP IN REAL ESTATE COULD THREATEN CHASE'S RECOVERY

tives who earned their spurs in corporate lending, Labrecque gained prominence in Chase's less-glamorous treasury department. But it was during New York City's fiscal crisis in the mid-1970s that his star began to rise. As Rockefeller's assistant, he sat on the committee of banks that confronted the demands of New York's municipal unions. Felix G. Rohatyn, a senior partner at Lazard Frères & Co. and chairman of the Municipal Assistance Corp. that helped bail out the city, says Labrecque was a strong mediator at a time when the city's creditors and unions were barely on speaking terms. Labrecque was adept at seeming to remain cool no matter what. Recalls Rohatyn: "I would be there in a turtleneck, dungarees, sneakers, and a two-day beard. Tom would walk in as if he was ready to pose for a Ralph Lauren ad."

Labrecque's performance assured his career. He soon joined Chase's management committee and, in 1978, convinced the board that Chase should expand its retail business. Today, some 40% of Chase's earnings come from that business. Next came the presidency, to which he was named in 1981, at age 42.

His promotion over longtime Chase Vice-Chairmen Barry F. Sullivan and William Ogden clearly upset some Chase insiders. Sullivan quit the same year to take over as CEO of First Chicago Corp. Ogden left in 1984 to take the No. 2 spot at Continental Illinois. Sullivan won't comment, and Ogden could not be reached. But other former executives wonder if Labrecque's skills as a mediator and staff member translate into the ability to run the bank. A former executive says Labrecque has little experience in making loans and dealing with clients. "His whole career was spent as a staff guy. You don't get a chance to practice."

Labrecque chafes at suggestions that he lacks the skills to manage Chase. "The real question is what is banking today," says Labrecque, who notes that J. P. Morgan & Co. Chairman Dennis Weatherstone also had a nontraditional banking career—he was once a foreign-exchange trader. And Labrecque becomes especially annoyed at detractors who say his success has less to do with his talents than his past loyalty to Rockefeller and Butcher.

A more pressing concern is whether Chase's latest turnaround scheme will achieve the kind of results Labrecque wants. The cuts are deep. And regulators will likely look kindly on the dividend cutback when deciding whether Chase would qualify for broader privileges, such as the stock underwriting powers recently accorded Morgan.

A SCRAMBLE. Another worry is the real estate market. If it continues to decline and funding remains expensive, Chase could be hard-pressed to come up with yet another rescue. The bank may have to redefine its fundamental strategy. Through most of the 1980s, it was considered a smaller version of Citicorp. Chase tried to serve both consumer and corporate clients, here and abroad. But that has clearly become costly.

That means Labrecque may have face some more painful choices. Oth money-center banks have already defined their goals in recent years. C is scrambling for consumers around t globe, while Morgan and Bankers Tru seek to be Wall Street dealmake Whether Chase can do both "depends the economy and how the retructuri turns out," says analyst Raphael Soi of Brown Brothers Harriman & Co.

In the meantime, Wall Street has ready begun speculating on wheth Chase can remain independent. With many New York money-center banks ing for the same business, many a lysts believe Chase would be better in the long run if it were to team with a competitor. The most logical c didates are Manufacturers Hanov Corp. or Chemical Banking Corp. Cha and Chemical are currently battling e other for second place after Citicorp New York's profitable retail market.

Although the board sees no immedi benefit from a merger, says one dir tor, merger talk isn't about to fa away. "It's inevitable when Chase st is so low in relation to its capital va that there would be talk of a merge says Rockefeller, who adds that a me er isn't being considered now. "It's ceivable a merger could make sense," says. Plenty of other banks ha reached the same conclusion as banking industry has consolidated o the past decade. But until now, it wo have been unthinkable that Chase M hattan Bank might have to face up that prospect.

By John Meehan, with Leah J. Nath in New York, Richard A. Melcher in L don, and bureau reports

FROM THE CITY TO THE DESERT: BUTCHER, ROCKEFELLER, AND LABRECQUE WERE KEY PLAYERS IN RESCUING NEW YORK FROM RUIN GLOBETROTTER ROCKEFELLER, VISITING THE ARAB EMIRATE SHARJA IN 1974, OFTEN OFFERED OIL SHEIKHS FINANCIAL ADVICE

MIGHTY MORGAN'S MOVE INTO SECURITIES WON'T TURN INTO A STAMPEDE

Banks have a joke about the Federal Reserve Board: Say "Good morning" to a Fed banker, and the response will be: "Raise your capital." With the Fed's Sept. 20 approval of new stock-underwriting powers for J. P. Morgan & Co., the central bank is showing that it can still find new ways to deliver the old punchline. By making rock-solid Morgan the first and only bank with such authority, the Fed is leaving little doubt about its message: The undercapitalized need not apply.

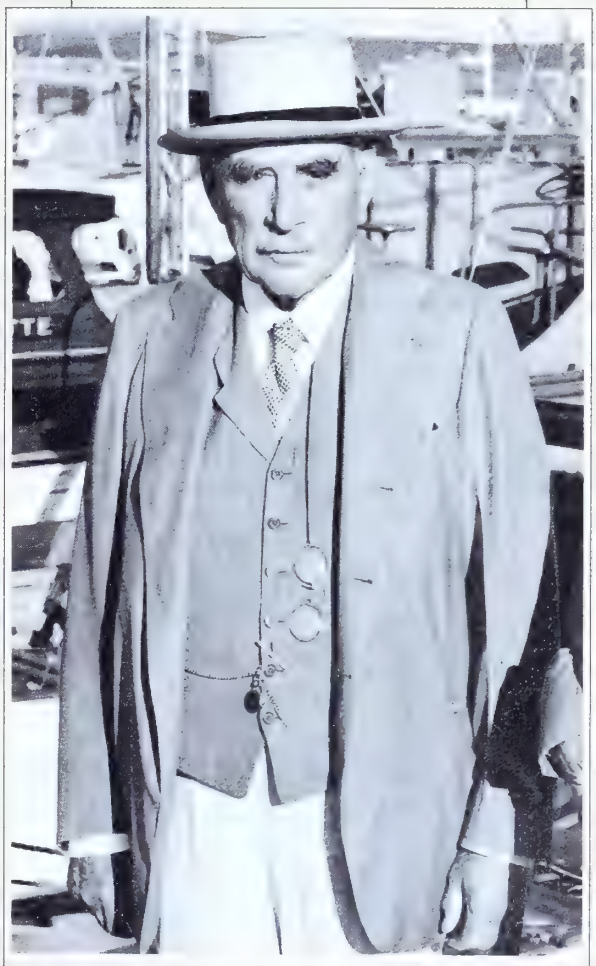
Morgan, true to its patrician heritage as the banking remnant of the broad-ranging empire built by financier J. P. Morgan, wasn't even talking about its new powers, much less trumpeting its success. The bank obviously was content to let its numbers do the talking. Morgan's return on equity is an enviable 16.9%, compared with a 14.4% average for money-center banks, and its basic capital, as defined by the regulators, is at 6% of assets, vs. 4% for struggling Chase. Bad loans at Morgan amount to only 1% of assets, compared with 3.3% for the average money-center bank, according to Thomas H. Hanley, an analyst at Salomon Brothers Inc.

IDEAL CANDIDATE. Morgan stays ahead of the pack by what it has done—and left undone. It was the first major bank to set aside big reserves on shaky foreign loans, and it has avoided heavy real estate lending. Also, while other banks plunged into real estate to make up for losing corporate-financing business to investment bankers, Morgan stole a page from Wall Street's book. It moved to fee-based services, such as trading in foreign currencies and arranging "swaps" of interest rates for corporations and institutions. Its forays into advisory services included such things as merger and acquisition advice. Overseas, where federal restrictions don't apply, Morgan has long maintained a small stock-underwriting business.

Experience and financial strength, then, made Morgan the ideal candidate for the Fed's efforts to erode the Glass-Steagall Act, the 57-year-old legal wall separating the activities of investment banks and commercial banks. The Fed has wriggled through a series of loopholes since 1987 to expand banks in areas once considered exclusive investment-banking turf. The Fed's past success leaves little chance the courts will block the latest action.

Fending off Congress is a different matter. Representative Henry B. Gonzalez, the Texas Democrat who chairs the House Banking Committee, called the Fed move "irresponsible." He and others point to savings-and-loan institutions, which argued in the early 1980s that they could grow their way out of their problems by taking on new powers. Similar concerns spawned Glass-Steagall in the first place.

A big worry of Congress is that banks will use the funds raised via federally insured deposits to bail out floundering affiliates. The concern is not theoretical. In the wake of the October, 1987, stock market crash, Continental Illinois Bank loaned $385 million to its First Options Corp. unit, which had been savaged in the sell-off. The U. S. Comptroller of the Currency objected because the transfer exceeded the bank's lending limits. A bank spokesman says the loan was replaced with funds from the parent holding company. The Comptroller never formally disciplined Continental.



J.P. MORGAN: THE BANK IS TRUE TO ITS PATRICIAN HERITAGE

Bank underwriting of stocks and bonds isn't likely to cause any problem in the near term, if only because the business is anemic. For securities-industry rivals, that takes a lot of the sting out of the decision. Notes Alan C. Greenberg, chairman of Bear, Stearns & Co.: "Over the last 15 years, we've lost 250 competitors. I can't get excited about the addition of one more." The Securities Industry Assn. isn't so sanguine. SIA President Edward I. O'Brien fears bank underwriting may imperil federally insured deposits.

WHO'S NEXT? Bankers are unlikely to become major factors in the underwriting business quickly. Analysts such as Richard A. Mueller at Duff & Phelps expect Morgan to ease into stock underwriting slowly, using it as a tie-in with international business, where Morgan is strong. Bankers Trust Co. also is expected to receive approval, but the pace of new entrants then is likely to slow. Weaker applicants—Chase Manhattan and Citicorp—are hurting, and bankers don't expect them to get the nod any time soon.

Nevertheless, letting banks tap new sources of business in addition to investment banking is viewed as inevitable. Raphael Soifer, a bank analyst at Brown Brothers Harriman, says much pressure will come from Europe, where a broad-based business will be the model for all banks in 1992. That's already the way international powerhouses such as Deutsche Bank and Japanese banks are built. But U. S. banks hoping to play the global game face a stiff challenge if they have to beef up their financial muscle to match Morgan.

By David Zigas in New York, with Tim Smart in Washington

THE IRAQ CRISIS

OIL TRADERS ARE PULLING ON THE FLAK JACKETS

War jitters have the pits in a panic, prompting Bush to crack open the Strategic Petroleum Reserve

In the first week of August, as U.S. forces prepared for duty in Saudi Arabia, a phrase became popular around Fort Bragg, N.C.: "Hell no, we won't go. We won't fight for Texaco." Seven weeks later, as some 150,000 U.S. and allied troops are massed in Saudi Arabia, oil traders are betting that the soldiers will see combat, not on behalf of one company but for control over the world's richest oil fields. Mideast war fears sent crude on a wild, weeklong ride that saw prices touch $40 a barrel.

That was enough for George Bush. After weeks of resisting, the White House on Sept. 26 announced that it would authorize a drawdown of part of the 590-million-bbl. Strategic Petroleum Reserve. As soon as the Energy Dept. can line up bidders, 5 million bbl. will be auctioned in hopes that the fresh supply will calm the market and settle prices. "There is no justification for the intensive and unwarranted speculation in oil futures," President Bush said. "While the oil market is very tight, with little spare capacity, there is sufficient oil to meet current needs."

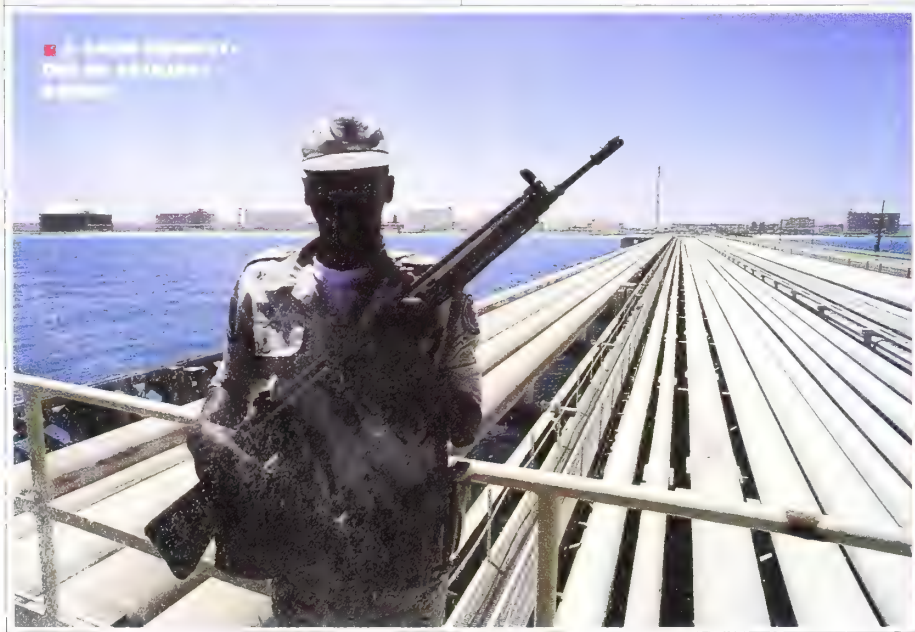
All the turmoil was sparked by Saddam Hussein's latest threat to destroy Saudi oil fields and the feeling that the world was heading relentlessly toward war, not a stalemate. All the bellicose talk caught the market right when crude supplies are tightening. Oil imports reached a postinvasion low of 5.7 million bbl. a day in the week ended Sept. 21, down 1.2 million bbl. a day from two weeks earlier, the American Petroleum Institute says.

'TOTAL DISASTER.' The prospect of a barrel of oil costing $40 or more raised the specter of a swifter fall for an economy already on the brink of recession. Oil at $40 means gasoline prices might soon top $1.50 a gallon for unleaded regular, heating bills would soar, and major airlines would be staggered by sharply higher costs for jet fuel. "Forty dollars would just be a total disaster," says George W. James, chairman of Airline Economics, a Washington-based aviation consulting firm. "You couldn't begin to recover it through fare increases."

War would be worse. Military analysts and oil experts say it would be tough for Iraq to cripple Saudi production. Yet actual shooting could drive prices much higher—to $65 a barrel, according to a new World Bank study. Should the tension in the Mideast suddenly ease, price could crash to the low 20s. In other words, the very prospect of war is costing the world $15 a barrel—and the real thing could be far more expensive.

Just a few weeks ago, oil seemed to be hovering around $30. OPEC is now opening the tap wide enough to make up for at least three-fourths of the 4 million bbl. a day in lost Iraqi and Kuwaiti exports. Production now comes close to the fourth-quarter target of 22.5 million bbl. a day set by the cartel in late July, before Saddam invaded Kuwait. But OPEC's goal was set lower than expected demand as a way to force companies to draw down stocks—and raise prices. Sure enough, in the latest round of price hikes, oil buyers recognized that a major oil shortage was shaping up for the fourth quarter, says Ernie W. Stamper, an Ashland Petroleum Co. vice-president.

The sharply higher oil prices are hitting the U.S. economy when it's already reeling. Business conditions were deteriorating even before Iraqi tanks rolled into Kuwait. The government on Sept. 25 reported that gross national product grew at a slow 0.4% annual rate in the second quarter, far below the Commerce Dept.'s earlier estimate of 1.2%. And the Federal Reserve Board is intent on mai



ining its anti-inflation stance to pre-
nt high oil prices from causing a re-
ay of the 1970s price spiral (page 118).
How much damage will higher oil
ices inflict? If crude prices average
ore than $34 a bbl. over the next 15
nths, the economy would grow a
nt 0.8% in 1990 and 1.2% in 1991, ac-
rding to a forecast done by economic
nsulting firm Regional Financial Asso-
tes Inc. Unemployment, now 5.6%,
uld hit 6.6% in 1991, and inflation
uld spike to 5.7%. The scenario gets
aker if the average price of a barrel
oil tops $43. Then, the economy would
ow 0.7%, unemployment would hit 7%,
d inflation would rise to 6.7% in 1991.
The worst case, of course, would be a
r that drags on. The World Bank
idy assumed that a prolonged war
ld reach to the Saudi fields, taking
t 10 million bbl. a day of oil produc-
n. In that case, prices would spurt to
a barrel for the balance of 1990, and
k at $65 next year. Prices that high
uld cripple the world's economies.

T OF RANGE. The big question is how
ch capacity would be knocked out if
hting erupts. Much of Saudi Arabia's
facilities are out of Iraqi artillery
ge. And the Iraqi air force, which for
ch of the Iran-Iraq war proved inef-
tive at knocking out Iranian oil facili-
s, is given a slim chance against the
anced jet fighters protecting the Sau-
kingdom. Furthermore, damaged fa-
ies could probably be repaired quick-
Even the Kharg Island refinery, a
orite Saddam target during his eight-
r war with Iran, was usually up and
ning a few days after an attack.
Kuwait's oil installations are another
tter. "If all the wellheads were
ged and exploded, there could be
at risk to Kuwait's oil fields," says G.
ary M. Schuler, an expert on energy
urity at the Center for Strategic &
ernational Studies in Washington.
Despite the spike in oil prices, no drill-
boom has yet materialized. "I'm cer-
ly not going to be rushed into taking
whole lot of different decisions be-
se the price of oil is counted at $40,"
s Robert B. Horton, chairman of
ish Petroleum Co.
While oil companies can afford to bide
r time, the oil price shock is already
ing through the economy. Federal
serve Chairman Alan Greenspan,
nout much leeway granted him by
ld financial markets, is unlikely to
p-start the economy by aggressively
ering interest rates. For the moment,
best hope may be that Bush's move
wist open the tap on the strategic
erve calms the panic in the oil mar-
s—and that the nation sidesteps war.
*y Robert Buderi, with Christopher Far-
in New York, Vicky Cahan in Wash-
on, and bureau reports*

Commentary/by Howard Gleckman

THE CAPITAL-GAINS DEBATE: A WASTE OF CAPITOL TIME

For 20 months, economic policy-making in Washington has been paralyzed while Congress and the Bush Administration squabbled over whether to cut capital-gains taxes. While the politicians fulminated, the economy has run out of gas, the budget deficit has soared to $250 billion, and the stock market has lost almost 20% of its value. Yet all Democrats and Republicans could do was hurl invective at each other over taxes on investment profits.

The capital-gains tax has taken on a political dimension totally out of proportion to its economic significance. President Bush would have the public believe that cutting capital-gains taxes by $20 billion over five years would deliver an industrial-strength kick to economic growth. Democrats counter that a capital-gains tax cut would further undermine the progressive tax system, an especially cruel blow at a time when working Americans must absorb the brunt of new budget reductions and higher levies.

The most immediate victim of this fixation is deficit reduction. Bush and congressional Democrats spent months insisting they wanted to cut the deficit by $500 billion through 1995. But instead of acting, they quickly deadlocked over capital gains. And despite hints from GOP leaders that their zeal for the issue might be flagging, capital-gainsmanship pushed the government to the brink of automatic budget cuts.

Fellas, it isn't worth it. In theory, cutting taxes on capital gains is a fine idea that would probably give the economy a little boost. Trouble is, the broad impact would be so small as to be almost unmeasurable (table).

To simulate the long-term effect of a capital-gains cut, the Congressional Budget Office ran the Bush proposal through the Washington University Macroeconomic Model. It found that cutting the top effective tax rate on capital gains would raise real gross national product a total of $38 billion by 1999. Sounds impressive. Except that cumulative output over the period will be $47 trillion. It's a good bet that cutting the deficit by $500 billion will provide the long-term economy with a bigger increase than that—maybe 10 times bigger, according to the CBO.

So why has the President been so insistent on the issue? In part because his aides believe the tax cut would provide a much bigger economic bang than do either the CBO or most private economists. But mostly, it's politics.

SAVING FACE. Since his 1988 campaign, the President has made a capital-gains tax cut his top domestic priority. The Democratic Congress last year fought Bush to a standstill on the issue. After staking so much on the plan, he could not afford another defeat in 1990.

Just as important is what it would mean for the President's relations with congressional Republicans. Those lawmakers, especially in the House, already feel betrayed by Bush's decision to abandon his "no new taxes" pledge. With just weeks to go before congressional elections, Hill Republicans need to save face. And a capital-gains tax cut is the last shred of supply-side symbolism left to them. Bush knows that without that sweetener, he will have a hard time persuading House Republicans to support any budget package.

The protracted debate might have been worthwhile had Bush and Congress argued about the relative merits of a big stimulative tax cut or a major overhaul of entitlement programs. Instead, they have frittered away time as the economy weakened. Whatever deficit deal finally emerges will probably come too late to help the economy avoid a slump. And even over the long run, the benefits of a capital-gains reduction simply will not outweigh the cost of a two-year budget stalemate that saw an explosion of the deficit—and of the public's disgust with its government.

THE TAX CUT ISN'T ECONOMIC ROCKET FUEL

According to one model, a 30% capital-gains exclusion would yield these cumulative gains by 1999:

	Percent
REAL GROSS NATIONAL PRODUCT	0.1%
NET SAVINGS	0.8
REAL BUSINESS FIXED INVESTMENT	1.2

DATA: CONGRESSIONAL BUDGET OFFICE, BASED ON WASHINGTON UNIVERSITY MACROECONOMIC MODEL SIMULATIONS

AUTOS

CHRYSLER HEADACHE NO. 2: THE UAW

Its aging car line is problem No. 1, but labor costs could be crippling

The United Auto Workers has fought for decades to ensure that its members get the same pay and benefits at all U. S. carmakers. The present round of bargaining is no different. UAW leaders want the same generous terms from Ford Motor Co. and Chrysler Corp. that they recently won in a new contract at General Motors Corp. While neither of the other two auto makers relishes this prospect, robust Ford can afford a GM-type deal—no problem.

Chrysler is another story. "GM may have deep pockets, but we don't," snapped Chrysler Motors Chairman Bennett E. Bidwell at a press conference after the GM deal was announced. Indeed, Chrysler has been floundering the past year and is trying to cut costs across the board. To avoid a strike, management probably will sign on the dotted line. But if a recession hits and Chrysler's future becomes dicey, even UAW leaders concede that the company may want concessions in midcontract.

Chrysler's dilemma is clear enough. Soaring administrative costs have pushed up its break-even point. Although Chrysler minivans and jeeps are selling well, its cars have been losing favor with consumers. To bolster sales, the company has had to shell out rebates of up to $3,000 a car. Even so, Chrysler's car market share has slid 1.1 percentage points this year, to 8.2%.

CRASH AND FIX. As a result, Chrysler's financial outlook is getting bleaker. Its net income skidded 47% in the second quarter, to $180 million. It expects a big loss in the third quarter. And cash flow, which turned negative in 1989, may worsen this year, too (table).

To weather the rough times, Chrysler Chairman Lee A. Iacocca has vowed to slash $2.5 billion in overhead costs. The company is reducing white-collar jobs and employing tactics such as repairing and reusing crash-test prototypes. But if the Persian Gulf crisis tips the economy into recession, even these efforts won't change the gloomy outlook. And Chrysler lacks the cushion that foreign operations provide for its two U. S. rivals.

Even if the U. S. market doesn't deteriorate further, there's little immediate relief on the horizon. Chrysler's core problem is its aging product line. Last year it canceled its low-end Omni and Horizon models, leaving Chrysler without a small, fuel-efficient car made in the U. S., just when oil prices are headed up. In midsize sedans, most of Chrysler's models are based on the 10-year-old K-car platform. And its new model, codenamed LH, isn't due out until 1993.

As an interim measure, Chrysler will replace the popular, but aging, Jeep Cherokee 4-door with a new version next year. And it's placing driver airbags in all U. S.-made cars, which should help to attract safety-conscious buyers. Still, "the question for Chrysler is whether it can stay viable long enough to launch its new platform in '93," says Daniel Lu a researcher at the Industrial Tech ogy Institute in Ann Arbor, Mich.

Chrysler officials maintain that t dismal outlook entitles them to a che er labor pact. GM agreed to a 3% hike, two 3% bonuses, and a commitm to spend up to $2.36 billion more on security programs. But Chrysler's la costs already total $33.16 an hour, $30.98 at Ford and $29.50 at GM. Chrysler accepts the terms of the deal, that number could jump by 26% $41.76 an hour, by 1993, according Scott F. Merlis, an analyst at Morg Stanley & Co. "It's a costly packag concedes one high UAW official. "Ther no doubt about it."

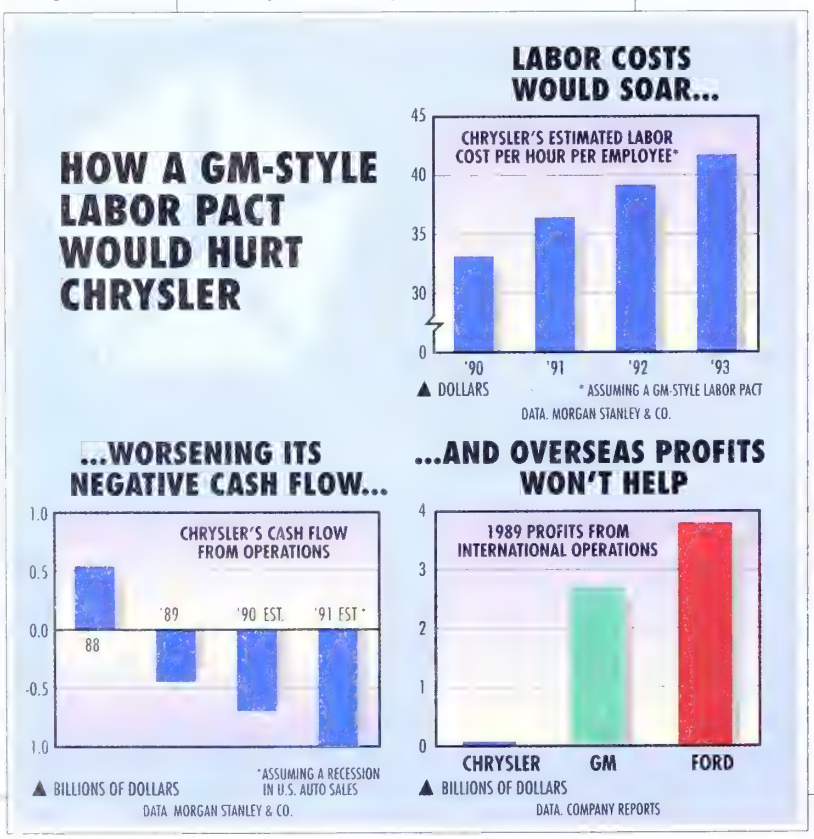
In reality, Chrysler's costs proba won't rise that high. For instance, it spent only two-thirds of the $230 mill set aside for job security under the contract. In addition, the increase wo be reduced if Chrysler cut its 62,0 person work force, as it almost certai would. Yet, says Merlis, "Chrysler co use the dollars saved with a cheaper c tract to boost product development."

TOUGH LINE. By contrast, Ford sho have little problem following GM's d To meet demand, its efficient plants recent years have run full-out. And though its market share has dipped a this year, Ford probably won't have make the same costly income-secur payments a bloated GM faces.

Although UAW leaders are aware Chrysler's problems, they aren't incli to give the company break. The uni doesn't want to ab don an industrywi pattern. And Chrysle sitting on $4.3 billion cash. Most of it con from asset sales, UAW leaders would f it politically impossi to aid Chrysler with much money around.

Despite the UAW tough line, its lead say members would willing to help out Chrysler's exister were threatened aga "Certainly, we wo cut off our own head says one union offici But to UAW membe Chrysler's problems v have to get a lot wo before they'll turn friendly ear to mana ment's pleas.

By David Woodruff Detroit and Aaron Be stein in New York



IMAGES THAT MEAN BUSINESS FROM KODAK

TRANSPORTATION

AIRBUS PRODUCTION IN FRANCE: THE NORTHWEST PACKAGE WILL SECURE AN ORDER OF 75 JETS

IS AIRBUS PUSHING THE ENVELOPE?

Its customer loans may be getting too sweet for rivals to match

After news leaked out recently that Airbus Industrie and General Electric would lend Northwest Airlines $500 million to help secure an order of 75 new Airbus A320 jets, U.S. Trade Representative Carla A. Hills told the European Community she was "particularly disturbed" by the loan. Another top U.S. trade official put it more bluntly: "This smells."

But from Long Beach, Calif., and Seattle, the respective homes of Airbus competitors Douglas Aircraft Co. and Boeing Co., the silence was deafening. One reason: While U.S. aircraft makers are just as concerned as Washington about the heavily subsidized Airbus consortium, greasing the skids with financial incentives is business as usual when it comes to selling airplanes. Depending on the order, Boeing and Douglas might do the exact same thing, says a United Airlines executive. "It's just another form of discounting," he contends.

TOO SWEET. That's not to say it isn't worrisome to the U.S. airframe makers. To them, the Northwest deal is the strongest evidence yet that Airbus has become an aggressive threat. Even before the deal closed, Airbus was arranging another transaction whereby America West Airlines—an all-Boeing carrier—would, in effect, get $150 million for leasing 100 A320s. The money will come from airplane lessor GPA Group PLC and an international engine consortium. But Airbus' clout helped to make the deal come off. Meanwhile, the union group looking to take over United Airlines parent UAL Corp. has had extensive talks with all three airframe makers about backing its bid in return for jet orders.

Airbus is turning up the heat at a time when the U.S. industry can least afford it. Boeing, in contrast to Douglas, is cash-rich. But neither can compete with sweeteners subsidized by the governments of France, West Germany, Britain, and Spain. Customers of both U.S. companies must now contend with soaring jet-fuel prices and the threat of recession. Those factors are squeezing airlines, which had an overcapacity problem even before Iraq invaded Kuwait (chart). With traffic growth slowing, carriers are deferring decisions to order new aircraft, and some, notably USAir Inc., have delayed delivery of new planes.

Because of the uncertainty in the market for his plane Boeing Chairman Frank Shrontz told t *Seattle Post-Intelligencer* on Sept. that his $91 billion order backlog mig be soft. If airlines can't afford to ta delivery, he noted, "a firm contract all a sudden doesn't mean much." Says an lyst Wolfgang Demisch, of UBS Secu ties Inc.: "If the customers catch a co the manufacturers catch pneumonia."

REASON TO FRET. Airbus officials cla their Northwest deal is nothing speci Equipment based financing—whi amounts to lending money secured the assets you are selling—is commo place in the industry. But Airbus' Nort west loan pushes the envelope.

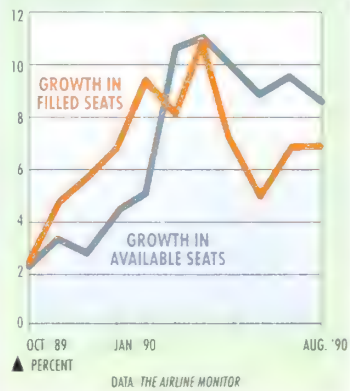
First of all, Northwest can use t loan proceeds in any way it sees fit. can, for example, restructure the de that financier Al Checchi used to buy t airline. Second, the money will be pa up front, not directly linked to delive of the A320s. Each of those conside ations would normally stiffen the ter of the loan. But since Airbus' gover ment support keeps its cost of capi low, it can afford to make its terms a rates very attractive.

Even if the deal was done at mark rates, there would be reason for Boei and McDonnell to fret. A Commer Dept. report issued on Sept. 7 conten that while Airbus has never made mo ey and won't for "the foreseeable f ture," direct subsidies worth some $ billion have propped it up. And while three manufacturers have built up r ord backlogs during the recent orc boom, Airbus' inroads have helped cr ple money-losing Douglas, a unit of M Donnell Douglas Corp. Stiff competiti has also slowed the launch of Boeing new widebody 777.

Shrontz will have to stay aggressi on financing, though he says wouldn't invest directly in a leverag buyout, such as the bid for UAL. F while Airbus' move has irritated oth airlines, it also has whetted appetit Says a fleet planner one top U.S. carri "Airbus may fi themselves bei asked for the ex same thing" by oth carriers. With t pressure on, Boei and Douglas mig want to gripe mo about those Airb subsidies.

By Michael Oneal New York, with Pa Magnusson in Washi ton, Dori Jones Ya in Seattle, and bure reports

TOO MANY SEATS, TOO FEW PASSENGERS



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BANKRUPTCIES

EASTERN MAY BE WORTH MORE DEAD THAN ALIVE

Nervous creditors are starting to call for a sale or liquidation

SHUGRUE HOPED TO REBUILD THE AIRLINE, BUT HIS CHANCES ARE GETTING SLIMMER

The odds have been against Martin R. Shugrue Jr. from the start. The main task of the court-appointed trustee who took over the Herculean task of running Eastern Air Lines Inc. in April was simply survival. The creditors saw his job as that of a caretaker: to manage Eastern until it could be sold or reorganized or both. But armed with a slew of marketing initiatives, Shugrue set out to rebuild the ailing carrier. The latest is a plan, unveiled in a television and print ad campaign launched on Sept. 23, to woo business travelers with first-class service for full coach fare.

But the odds have grown much longer since the Iraq crisis added $15 million a month to Eastern's fuel bill. The airline is losing up to $2 million a day. And some creditors, worried about the slowing economy, war threats, and a softening market for airplanes and other airline assets, are pressing to resolve the carrier's fate while it still has assets worth saving. "It's not clear Marty Shugrue or anyone else can operate this airline profitably," says Daniel G. Harmetz, a Fidelity Investments portfolio manager. He contends that Eastern is worth more in liquidation than as a going concern.

Pressure from creditors is escalating the uncertainty surrounding Shugrue, who has adopted a more pessimistic tone in the past few weeks. As a trustee, he stands to receive a percentage of asset sales, capped at 3%, and he has been earning a monthly draw of $35,000 against that. "I wish I could hurry up the process on how to reorganize this estate," he said after a Sept. 25 speech. "I hope to God we have enough cash to outlast" the drawn-out reorganization process.

The best hope for Shugrue, and the creditors, appears to be the continuing sale talks with Northwest Airlines Inc. Chairman Al Checchi. One major obstacle to a deal has been Shugrue's insistence on selling the airline in its entirety rather than in pieces, such as unloading the Atlanta gates, which are Northwest's chief interest. Creditors have been stuck between U. S. Bankruptcy Judge Burton R. Lifland's demand that Eastern continue flying and their own reluctance to go on shelling out to keep the airline aloft. One creditor complains that there's "a lot" of interest in Eastern's hard assets, but without a sale of the entire carrier, "you have the L-word [liquidation], and no one wants to talk about that."

> In January, Eastern projected a $145 million loss for the year. Now, it's $510 million and growing

But unsecured creditors are weary of financing Eastern's losses. So far, they have provided $500 million from an escrow account—and to the dismay of many, Shugrue used $8 million of that to reconfigure planes to accommodate more first-class fliers. The account was set up to hold the proceeds of the asset sales that have kept Eastern alive for the 18 months it has languished in bankruptcy. Following the sale of Eastern's Latin American routes to American Airlines Inc. in August, the escrow account stands at about $1 billion, but some $600 million of that is earmarked for secured creditors.

"We've taken a huge bath," says one unsecured creditor. "We've basically been reacting to motions put forward by the court. We have to put forward a plan of our own."

Even some secured creditors are getting antsy. Harmetz says he's quite comfortable with the cash set aside to cover the first-priority bonds he holds. What's worrisome is the deteriorating value of the planes securing lower-priority debt. "If I was the holder of second- and third-priority bonds," he says, "I would be very nervous."

Secured creditors may soon take their concerns to bankruptcy court." One proposal they could make: distribute some of the escrow funds now to retire some of the notes, since the collateral is earning less than the bond interest.

FORBIDDEN WORD. Whatever they do, they need to act fast. Eastern's projected losses for the year have zoomed. In January, creditors were told to expect a $145 million loss. That more than doubled in March, to $330 million. When Shugrue took over, he predicted a $5[illegible] million shortfall, but that was before the invasion of Kuwait and the surge in fuel prices. As Joel Zweibel, the attorney for the unsecured creditors, told the bankruptcy court recently: "I have never seen a case where after a year and a half, the losses are not only continuing but escalating dramatically."

When Shugrue was appointed on A[illegible] 19, creditors had to assure Judge Lifland that the move was not a precursor to liquidating the airline. The L-word has become *verboten* in Lifland's oversight of Eastern's bankruptcy. But that was before airline fundamentals took a sharp turn for the worse. Under the circumstances, creditors may start urging the bankruptcy judge to add the L-word to his vocabulary.

By Gail DeGeorge in Miami

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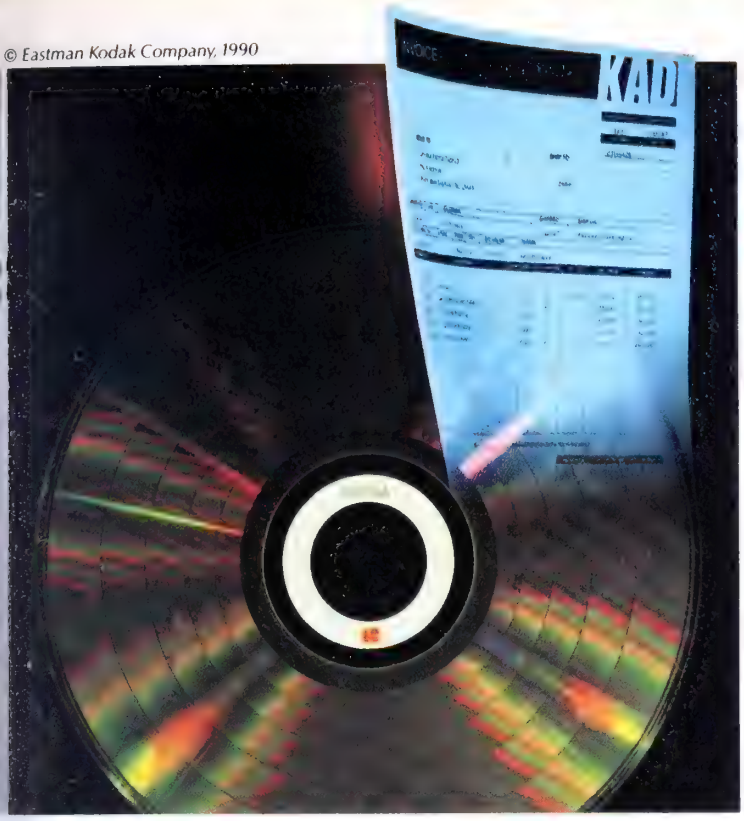

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THE THRIFT SCANDAL

CHARLIE KEATING GETS A TASTE OF L.A. LAW

He faces a long stretch in a jail that's no country club

In better times, Charlie Keating jetted to his vacation home in the Bahamas and played golf with the rich and famous. Dinner might be Maine lobster with porcini mushrooms and savoy cabbage at Mary Elaine's, the pricey eatery atop his luxury Phoenician Resort in Arizona. The Phoenician, the advertisements promised, was "as close to heaven on earth as you can get." These days, the former head of Lincoln Savings & Loan is a lot closer to hell on earth.

Charles H. Keating Jr. must feel like he just crossed over into the Twilight Zone. As he awaits trial on charges of defrauding customers, he spends much of his time alone in a 6-by-10-foot cell in the bleak Los Angeles County Men's Central Jail. Dinner might be chipped beef shoved through a slot in his metal door, and exercise is a cheerless 20-minute ride on a beat-up exercise bike. His neighbors? One of them is awaiting sentencing after being convicted of hiring a hit man to murder his parents. A floor below him are Erik and Lyle Menendez, the Beverly Hills brothers accused of the shotgun slaying of their mother and father, a prominent entertainment executive. And in a cell nearby are members of Los Angeles' Crips and Bloods street gangs.

Keating, who has denied any wrongdoing, is scheduled to be arraigned on Oct. 5. Meantime, an appeals court on Sept. 25 denied his bid to have his $5 million bail reduced. So, clad in his regulation blue jumpsuit, he is likely to be a guest of Los Angeles County for some time.

Yet even in jail, Keating retains a few of the trappings of celebrity. He's a "K-10," a designation reserved for "noteworthy inmates" that has been shared by such notorious wrongdoers as the Night Stalker, Richard Ramirez, who in 1989 was convicted of 13 murders, and Kenneth Bianchi, the multiple murderer known as the Hillside Strangler.

Keating has been separated for his own safety from more than 7,000 accused burglars, rapists, and others awaiting trial. Unlike the general inmate population, who are crammed into clamorous four- and six-person cells, his status entitles him to a windowless single cell, its concrete walls gouged and chipped. Its furnishings: a stained sink, a toilet without a seat, and a stainless-steel bed outfitted with a 6-inch-thick foam-rubber mattress. "This is no Phoenician," observes Los Angeles bail bondsman Celes King.

A routine day in jail is bleak from the start. The noteworthies in Section 7000 are awakened at 5:30 a.m. by the gla of fluorescent lights and a rap on t door. An inmate comes by weekly pus ing a cart filled with magazines, too brushes, and cigarettes.

Two or three times each day, a har cuffed Keating is led to a large, dimly room one flight down from his ce There, he meets with one of the ma attorneys he has hired to battle the m iad of civil and criminal charges agai him. He can use a pay phone at a time, as long as he can flag down guard to escort him to the phone. He c entertain visitors as well—for 20 m utes a day. Guests must wait in line f up to 90 minutes for the privilege.

TOILET-BOWL CHESS. Because the K- designation means that Keating mu avoid all contact with other inmat communication between celebrities the lockup is virtually nonexistent. J officials say that when boredom comes intolerable, the prisone shout to one another through t toilet bowls. The more ingenio of them even use that method play chess. And, for at lea three hours a week, Keating allowed "freeway time." Th means walking the 60-foot ment hallway outside his cell, r ing the gold-and-red Schwinn ercise bike, or watching a 19-in color TV. Extra time is allow for showers, also down the ha

Keating, who is 66 years o insists that he is broke. Th means that if his lawyers ca find a court willing to grant request for a bail reduction, seems stuck in his drab existen until he goes to trial, wh hasn't yet been scheduled. If c victed, he would probably see upgrade in his accommodatio White-collar felons tend to ser their terms in minimum-secur prisons, which, while hardly l ury hotels, are far more comfo able than the county jail.

Even the most spartan Cl Fed would be an improveme over where he is now. "He is i temporary situation designed serve a hungry public," says b bondsman King. "The wh country wants to see him go jail." That's just what Keating's lawye say: They contend that their client h been made a scapegoat for the ent savings-and-loan disaster. But that pc tion hasn't swayed any judges, and revenge-hungry public now is getti eyefuls of Keating's most assured c comfort as Los Angeles County's m notorious guest.

By Eric Schine in Los Ange

Keating's lawyers contend that their client has been made a scapegoat for the S&L disaster

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In Business This Week

EDITED BY HARRIS COLLINGWOOD

SMITH CORONA CONTEMPLATES HERESY

▶ Executives at Smith Corona have long argued that there would always be a market for typewriters and word processors among home users who couldn't afford a computer. But now, the company is hedging its bets. It announced on Sept. 26 that it's forming a joint venture with Acer America to develop a home computer. Company officials call the machine a product-line extension, but it may become more of a replacement.

Details about the venture are sketchy. Smith Corona and Acer each will post 50% of an undisclosed amount of capital, and Smith Corona will produce the units in Connecticut. The partners plan to roll out their machine in early 1991. What's clear, though, is that Smith Corona is responding to the drastic shrinking of a market it once bullishly estimated at 1.2 million units a year.

CHAIRMAN? NOW, IT'S JUST BOND, ALAN BOND

▶ The downfall of Australian financier Alan Bond is just about complete. On Sept. 26, he resigned as chairman of Bond, the now-troubled corporation that was once a brewing, real estate, energy, and broadcasting powerhouse. Creditors of the heavily leveraged company, disenchanted by continued heavy losses and Australian government investigations into Bond's business practices, have been clamoring for his resignation. Even with Bond's departure, one European creditor gives the company only a 50-50 chance of averting bankruptcy.

A LESS-THAN-DIVINE QUARTER FOR ORACLE

▶ Investors in Oracle have just about lost patience with the software company. On Sept. 25, Oracle Chairman Lawrence Ellison announced a loss of $36 million, or 27¢ a share, the first quarterly deficit in the company's 13-year history. The culprits, said Ellison: bad loans, accounting problems, and overly aggressive forecasting. The loss prompted a one-day, 15% drop in Oracle's already clobbered stock: It closed at 6¼ on Sept. 26—down from about 28 in mid-March.

Ellison also vowed to change Oracle's corporate philosophy and culture. Specifically, he promised to shelve the growth-at-all-costs strategy he followed in the 1980s.

STRATUS FINDS A BIG BUDDY IN JAPAN...

▶ Declining purchases by IBM are pinching the growth of tiny Stratus Computer, so it is hunting for new sales outlets. On Sept. 26, it landed a big one: Japan's NEC. Next year, NEC will begin selling Stratus' fail-safe computers worldwide. The first sales calls will be to telephone companies, where NEC can include Stratus computers with its telephone switches and networking products.

But that's just a start. The 10-year agreement lets NEC sell into any market and territory it chooses and gives it the right to use Stratus' basic operating software in other computers it manufactures.

The NEC tie-up also gives Stratus added competitive punch. And it couldn't have come at a better time: Digital Equipment and Fujitsu recently announced they were each developing their own nonstop computers.

...AND UNITED PARCEL FINDS ANOTHER

▶ Package giant United Parcel Service will now go head-to-head with archrival Federal Express in Asia. On Sept. 24, UPS announced a joint venture, called Unistar Air Cargo, with Japanese partner Yamato Transport. Unistar will handle both air freight a parcels between the U. S. a Japan. The service, which gins in October, expar UPS's traditional busin from small package deliv to include heavy cargo sh ments—a direct challenge Federal Express' struggl business in the region.

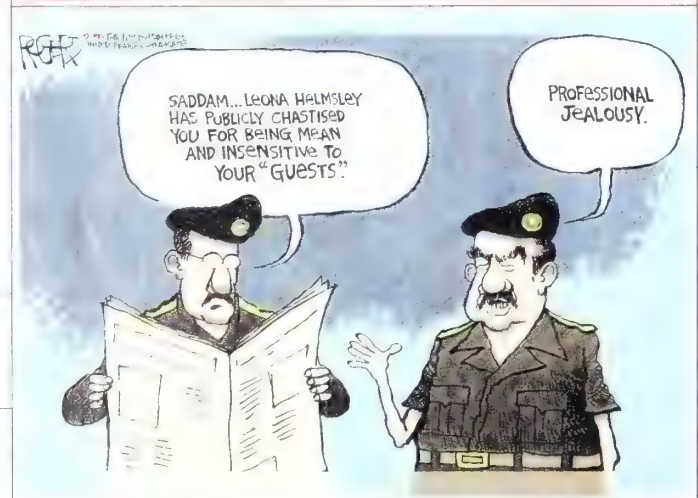
UPS, with $12.4 billion in r enues, should have little tr ble absorbing startup co And the freight forward allows UPS to fill planes t might otherwise carry o small parcels and overni letters between the U. S. a Japan.

LET THEM EAT CAKE?

John Gilbert, who has done battle with the likes of W. R. Grace, CBS, and PepsiCo, is back. And this time he's hungry.

Gilbert, 76, is the grandfather of America's corporate gadflies: By his own count, he has put forward more than 2,000 different shareholder proposals in 50 years. Now, he has Procter & Gamble in his sights. In a proposal that investors will consider at P&G's annual shareholders' meeting on Oct. 9, Gilbert as that the time of the meeting be changed from noon to "a m appropriate time for a food and beverage company." Specific ly, breakfast time. And he wants P&G to serve Duncan Hi cakes and Folgers coffee.

"Isn't that terrific?" exclaims Gilbert. P&G doesn't think It says the annual meeting will start at noon, as it has for years. O. K., but what about a nice snack? Not likely. Sniff company spokesman: "We've never served any refreshment



A STAR IS REBORN AT AMERICAN EXPRESS

▶ The Sept. 25 appointment Tomlinson Hill as co-chief ecutive of American Expre Lehman Brothers investm bank is intended to remind ents and competitors t Lehman was once one of W Street's most respec names. Hill was a star at L man before it merged w what was then called She son/American Express. A the merger, Lehman all disappeared, but now, An wants to recapture the h rock stability that the L man name once conjured

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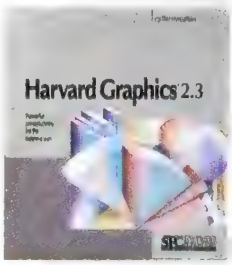

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EDITED BY STEPHEN H. WILDSTROM

'OR CARMAKERS, THERE'S 3AD NEWS IN THE AIR

The auto industry, with a big push from its friends in the Bush Administration, has managed to sidetrack legislation that would have required a massive increase in the el efficiency of cars. But the victory offers Detroit nothing re than a temporary reprieve.

The auto makers' woes are mounting fast. Soaring oil prices d a sagging economy threaten to torpedo already shaky car es. Congress is about to enact a revised Clean Air Act uiring tough new emissions standards and large-scale pro- tion of cars that can burn alternative fuels. And the fuel- iciency bill, which has strong backing in both Houses, will a top congressional goal next year.

ittle notice was paid in April, 1989, en freshman Senator Richard H. an (D-Nev.) first drafted legislation aise corporate average fuel economy FE) requirements from 27.5 mpg to mpg by 2001. Things got more seri- earlier this year when environmen- sts worked with Bryan to tack his onto an omnibus clean air measure. ook hard lobbying by the Adminis- ion and Detroit to keep CAFE sepa- e. Although Majority Leader George Mitchell (D-Me.) promised a vote on Bryan proposal, it seemed dead.

BRYAN: PUSHING NEW FUEL-ECONOMY LIMITS

IGH CHARGE. Then Iraq invaded Kuwait, and improved fuel nomy suddenly looked very attractive. The Sierra Club and National Wildlife Federation reacted by cranking up an ressive grass-roots lobbying drive. The environmentalists it for the jugular, asking lawmakers if U. S. soldiers should for the right to drive big cars. "If you are a politician, how you miss the opportunity to show that you are doing ething to protect us from the whims of a dictator like dam Hussein?" asks William J. Magavern, lobbyist for the S. Public Interest Research Group.

hat's a tough argument for the auto makers to counter. So, r years of haggling among themselves over everything from CAFE proposals to trade rules, U. S. and foreign auto makers are joining forces. Although the Bryan bill was crafted to place a heavier burden on the Japanese and other makers of mainly smaller cars, "we agree that the bill just doesn't make sense for any of us," says Toni Harrington, lobbyist for American Honda Motor Co.

Carmakers are warning that voters will rebel if they're stuck with tiny 40-mpg cars. And the industry insists the technology doesn't exist to meet Bryan's goal, an argument Detroit has worn thin by using it against every fuel-efficiency, pollution, and safety standard to come along. "We're told constantly, 'you say you can't do it, and then you do it,'" admits Thomas H. Hanna, president of the Motor Vehicle Manufacturers Assn. (MVMA).

After Bryan won 68 votes in a key Senate test on Sept. 14, the industry persuaded the Administration to lean heavily on GOP senators. The last blow came when Environmental Protection Agency Administrator William K. Reilly, who had stayed out of the fray, warned that passage of the Bryan bill could increase air pollution. On Sept. 25, supporters fell three votes short of the 60 needed to block a threatened filibuster. With Congress rushing toward adjournment, that was enough to kill the measure for this year.

Auto lobbyists are already plotting strategy to block Bryan in 1991. In hopes of stalling action, the MVMA suggests a "truly independent study by reputable experts" to assess the technological feasibility and economic impact of increased fuel-efficiency standards.

But Bryan isn't impressed. "We've lost the initial skirmish," he says. "But we're going to win the war." And unless the Persian Gulf crisis and fears about dependence on foreign oil suddenly disappear, his chances of winning in 1991 look bright.

By Vicky Cahan

PITAL WRAPUP

ICHIGAN

With election day looming, national Republican Party officials are itching their bets in Michigan. At e start of the campaign, the GOP ought it had a good chance to knock Democratic Senator Carl M. Levin, ile it regarded Democratic Governor mes J. Blanchard as a shoo-in for a rd term. But GOP Senate challenger l Schuette never recovered from a sty primary fight and appears to be ling out of contention. Now it's anchard who looks vulnerable. "This e is our sleeper race," says Norm mmings, political director of the Republican National Committee.

Blanchard's biggest problem is his state's economy. After presiding over Michigan's rebound in the late 1980s, he has been hurt by the auto industry's latest swoon. Blanchard is also taking some heat from women's and senior-citizens' groups for his abrupt decision to dump Lieutenant Governor Martha W. Griffiths, 78, from the ticket. Polls indicate that Blanchard's once-commanding lead over state Senate Majority Leader John Engler is down to about 10 points. The stakes are high. Detroit's massive loss of population will force a wrenching reapportionment that a Republican governor and Senate could use to cement GOP control of the state.

CALIFORNIA

Washington's festering budget feud has some lawmakers talking of staying in town past Congress' planned Oct. 5 adjournment. But for one senator, the 101st Congress is effectively over. Republican Pete Wilson, locked in a tight race with former San Francisco Mayor Dianne Feinstein, has all but deserted the capital to spend his time on the campaign trail. Wilson has already missed several key votes. House and Senate leaders worry that as election day looms, it will become increasingly difficult to hold members in Washington for the final crush of business.

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THE DRESDEN ART ACADEMY STILL SHOWS BOMBING DAMAGE

WHATEVER IT COSTS, VE HAVE NO OPTION'

may take up to $600 billion to rebuild East Germany, but Bonn expects a rush of foreign investment

When architects designed the shimmering gold Palast der Republik to be the showcase the Communist regime in East Berlin, ey surrounded the chambers of the st German Parliament with theaters, staurants, and art galleries. But the year-old complex also has 720 tons of cinogenic asbestos paneling. It must razed or completely renovated.

So must East Germany's bankrupt nomy after reunification ceremonies Oct. 3. Unemployment rates could k at 30% next year as a quarter of 8,000 state companies go bust. raling oil prices could further mp up reunification costs, which utsche Bank says will hit $104 bil- this year and next. The West rman budget deficit is quadru- g, to $64 billion, forcing Chancel- Helmut Kohl to retreat from his mise that unity would bring no new taxes. Says Commerzbank Chairman Walter Seipp: "We must admit we publicly overrated the economic strengths of [East Germany] and underestimated the structural problems we are now facing."

HIGH-PROFILE VENTURE. Fixing the economy will need investment outlays approaching $600 billion over 10 years. But the surprise is that German policymakers and executives believe it can be done. Less than a year after the Berlin Wall fell, East Germany is the favorite target for up to $50 billion earmarked by Western companies for investment in Eastern Europe, several Western studies have found, and private capital has begun to flow. "It's certainly not sufficient yet," says Bundesbank President Karl Otto Pöhl, "but after political unification, it will get an additional boost."

Pöhl expects a boost because West German business law will apply nationwide after Oct. 3. That will sweep away obstacles that have stymied many potential investors. Who has title to real estate and assets will be better defined, and sales of private property will be legal. The deadline will have passed for filing claims on confiscated property. And Bonn will indemnify buyers of factories against claims for environmental damage caused during 40 years of Communist rule.

Kohl, running for a third term in

THE COSTS KEEP SOARING

What East Germany says reunification will cost:

JUNE 1990, ESTIMATE:	SEPTEMBER 1990, ESTIMATE:
$69 BILLION	$104 BILLION

DATA: EAST GERMAN GOVERNMENT, DEUTSCHE BANK

all-German elections on Dec. 2, wants to solidify his political gains as the "Chancellor of Unity" by making the economics of reunification work. He's promoting high-profile private ventures in East Germany, such as laying the foundation stone on Sept. 26 for a $1.9 billion Volkswagen plant at Mosel. By 1995, it will churn out 250,000 Polo models annually. Just two days after the unity celebrations, on Oct. 5, Kohl will drive the first GM-Opel Vectra model built at Eisenach off the assembly line. The General Motors Corp. unit there plans to assemble 20,000 cars a year and by January, it will decide whether to build a plant that will produce 150,000 cars annually.

Like GM, Western investors are facing hard choices about whether to build new factories from the ground up, since much of East Germany's plant and machinery is worthless. "You can't put a modern production line in a 90-year-old factory," says VW Chief Executive Carl H. Hahn. Some companies, such as Italy's Olivetti, have declined to renovate former factories.

UP AND RUNNING. That's less of a problem for Westerners offering services such as banking and insurance. Deutsche Bank and Dresdner Bank split a majority stake in Deutsche Kreditbank months ago, and insurer Allianz snapped up most of Deutsche Versicherungs. German airline Lufthansa is vying with British Airways for complete control of East Germany's Interflug carrier.

Some Western companies have found deals that get them up and running immediately. Media group Bertelsmann's Gruner & Jahr unit, for instance, is paying an estimated $190 million for the East Berlin newspaper and magazine publisher Berliner Verlag in a 50-50 partnership with British publishing magnate Robert Maxwell. The old printing plant can churn out profitable titles such as the 420,000-circulation newspaper *Berliner Zeitung* and a TV guide called *FF dabei*, which sells 850,000 copies.

Bolstering hopes that East Germany's economy can rebound is a new entrepreneurial culture that has sprung up. In August alone, more than 30,000 new companies—1,000 a day—were formed. That brought the total of startups since Jan. 1 to 167,000, about 40% of them since monetary union with West Germany took effect on July 1. Many are mom-and-pop operations such as small guest houses, wurst stands, and cab companies. Professionals, too, are setting up in record numbers. There are, for example, now 1,600 lawyers in East Germany, up from just 600 last fall.

But East Germany's 8,000 state-owned companies are still living on borrowed time—and money. The Treuhandanstalt privatization agency has already doled out $19 billion in loan guarantees for working capital to keep them afloat. Hundreds would have been bankrupted at the end of October, when the companies were originally due to repay the huge loans, but now they have until the end of March, 1991. Even so, Treuhandanstalt officials forecast that half the loans will need to be written off.

To be sure, as the world economy faces recession because of the Mideast crisis and $40-a-barrel oil, it will be tougher and costlier to remake Ea Germany. But after Oct. 3, there can no turning back. "Whatever it costs, have no option," says the Bundesban Pöhl. Already, the Germans have c founded widespread foreca that this summer's monetary uni would spark inflation and sink t Deutschemark. Once they have bridg the upcoming trough of 1991, they co well spring another surprise.

By John Templeman in Bonn, with W liam Glasgall in Washington

BRITAIN

A FRUIT TYCOON FINDS HIMSELF IN A PICKLE

British police grill Polly Peck's Asil Nadir after volatile stock trading

NADIR'S EMPIRE GOBBLED A DEL MONTE FOODS DIVISION IN 1989

Acting on a tip-off, a team of plainclothes police raided an elegant townhouse in London's tony Mayfair district on Sept. 19. Inside were the offices of South Audley Management Ltd., an investment firm with close links to the family of one of Britain's richest men, Asil Nadir. The police carted off hundreds of documents and later grilled Nadir himself for several hours.

Just weeks after the conviction of four men involved in the 1986 Guinness scandal, Britain is again riveted by allegations of stock manipulation involving one of its prominent companies. The target of investigators this time is Polly Peck International PLC, a $2.2 billion-a-year fruit and electronics conglomerate 28%-owned by Nadir. Although Nadir hasn't been charg with any perso wrongdoing, offici are looking at possi connections betwe South Audley and s eral Swiss and Caym Islands shell compan that have traded ext sively in Polly Pe stock since at le 1986. When word of police raid on So Audley leaked out Sept. 20, Polly Pec share price crashed 55%, to $2.04, before London exchange h ed trading.

The exchange h long been investigat heavy trading in P Peck shares by the s companies with s names as Riverbri Investments and Tristan Ltd. Trading these companies "has been very p scient" and has been concentrat around sensitive announcements such those on profits, says a source close the Polly Peck investigation.

PAPER TRAIL. Investigators have recen begun to suspect that trading by th companies may have been partly c trolled by a former director of So Audley Management, Jason Davies, young broker with extensive links to N dir and his family. A current director South Audley, Elizabeth M. Forsyth, listed in its accounts as a director several private Nadir companies. So Audley is part-owned by a Jersey com ny in turn owned by Nadir family trus

Nadir is not returning reporte

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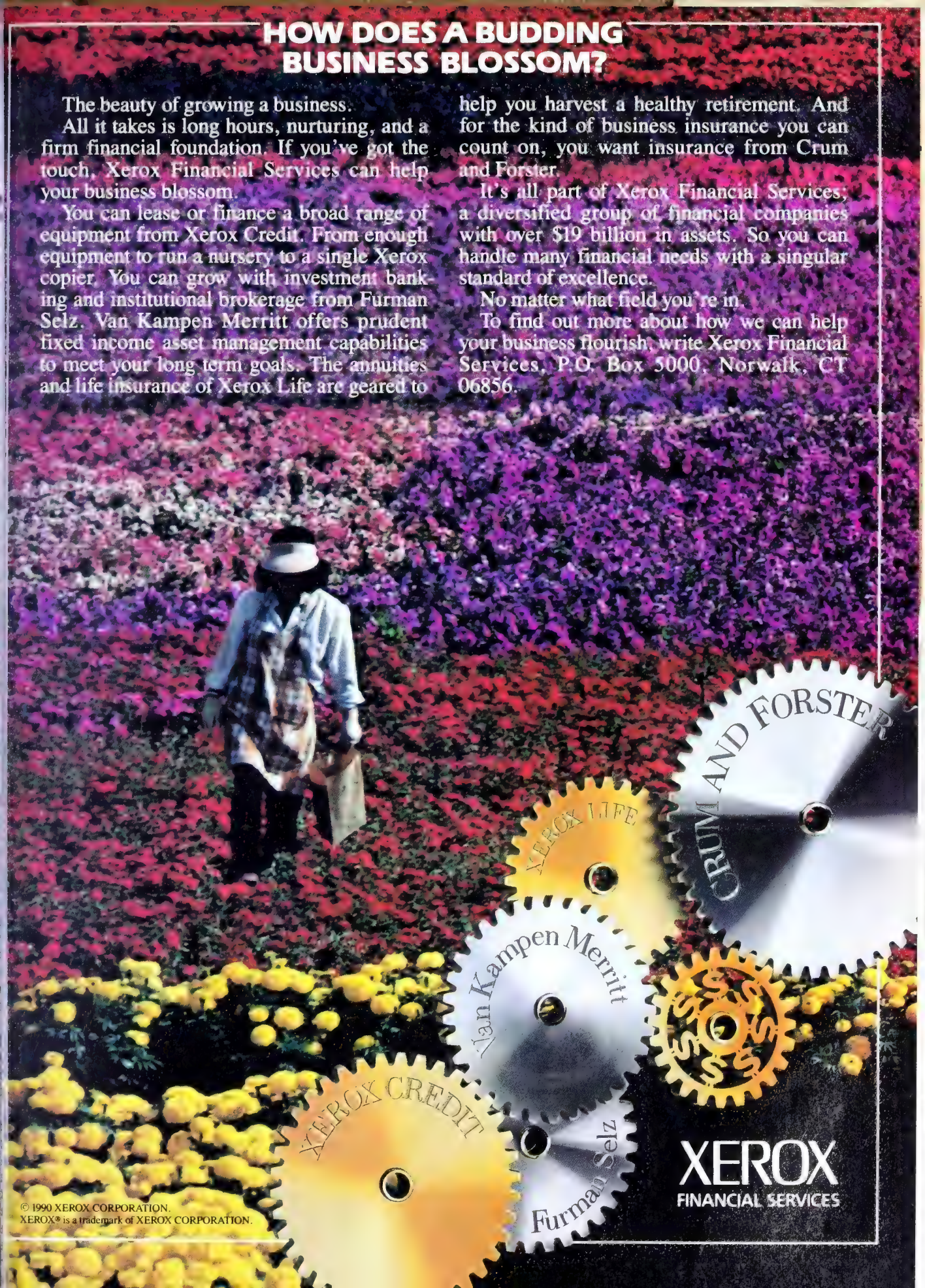

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phone calls. One theory is that the case involves simple insider trading. Another is that Nadir has borrowed heavily against his Polly Peck shares and that he therefore has an interest in propping up the stock price to keep up the value of his collateral. In the past two years, Nadir has personally spent at least $170 million buying media properties and a bank in Turkey and an additional $300 million on Polly Peck stock. If he has borrowed against his shares, his creditors may be getting edgy, because the value of his stake has been cut from $750 million in early August to $250 million.

Nadir is a 48-year-old Turkish Cypriot who made a killing in Cyprus fruit exports in the late 1970s. In recent years, Polly Peck has mushroomed, expanding into electronics, hotels, and even Turkish Pizza Hut franchises. Revenues grew eightfold from 1984 to 1989, although earnings per share grew by only 50%.

Nadir's frantic dealmaking came to a peak last year when he more than doubled the size of his fruit empire by pa ing $875 million for the fresh fruit di sion of Del Monte Foods Inc. A fe months later, he bought 51% of Japar troubled Sansui Electric Co. for $128 m lion. Now, after all the razzle-dazzle, vestors are clamoring for a new cha man to ensure that Polly Peck can act the interests of all shareholders. Wh Nadir may give up the chairman's sp it will be tough to oust him as CEO u less he's convicted of a crime.

By Mark Maremont in Lond

HONG KONG

A TEST OF WILLS IN HONG KONG

London wrestles Beijing for control of a giant construction project

MILLIONAIRE DEVELOPER WU: "THE CHINESE HAVE CONFIDENCE IN ME"

When Britain hands Hong Kong over to China in 1997, it hopes to leave one of Asia's finest new airports as a farewell gift. China should be delighted. Hong Kong's economic base is eroding fast as professionals and manufacturers leave. Without a badly needed replacement for Kaitak Airport, Hong Kong's role as a bustling entrepôt could fade further.

But it isn't that simple. In fact, Hong Kong's $22 billion blueprint for the world's biggest construction project, which includes new port facilities, expressways, and a huge suspension bridge, is rapidly emerging as a major test of wills between London and Beijing over who determines the crown colony's future. Caught in the crossfire are such U.S. firms as Bechtel International, Greiner Maunsell, and Morgan Stanley, which hold consulting contracts that could lead to billions of dollars of work for U.S. companies—and keep U.S. support strong for a relatively autonomous Hong Kong.

The battle has all the makings of an Oriental potboiler. A central character is Hong Kong millionaire developer Gordon Y.S. Wu, who is challenging the colonial government's plan as poorly conceived and too expensive. He has Beijing's blessing for his own $13 billion privately financed airport scheme because the Chinese fear that they would have to pick up the tab for the British-backed airport. To complicate matters, Wu, managing director of Hopewell Holdings Ltd., is backed by Japane and Chinese companies.

Wu's critique of the British-back plan is searing. Take his assessment o 1,450-meter bridge to the airport, whi would be located on Lantau Island. T proposed $1 billion span, which wou have a six-lane highway and a ma transit line, will be the only route to t airport until 2011. A typhoon, Wu war could close the airport to vehicles. Ba ers estimate that to cover costs, t bridge toll would be about $25 rou trip. And since the bridge will not fe into existing road and rail networks, t current plan envisions an expressw slicing through some densely populat areas. In contrast, Wu says his pl would make greater use of existi transportation links and chop billions dollars off land-reclamation costs. " sign on the dotted line," Wu declar "The Chinese have confidence in me."

LAST STAND. Few give Wu any chance pulling off a hostile takeover of the tire project. British officials pledge proceed—even if all the funds m come from Hong Kong's $18 billion foreign reserves. "This is where British are going to take their stan says a Western diplomat. "They can't seen as backing down to the Chinese

But the colonial government may forced to compromise if it is to win o dubious banks. A test of confide comes in October, when the governm solicits tenders for the Lantau brid Among the bidders will be consortiu led by Britain's Trafalgar Group, Mit bishi—and Gordon Wu. Hopewell's pa ners will include Japanese construct giant Ishikawajima-Harima Heavy dustries Co. Wu's strategy: to "under anybody" to win the contract and th attempt to have existing plans repla with his own. "It's an impossi scheme," says Ying Price, the U.S. c mercial consul and a fervent backer the government plan. Maybe so. Bu Wu disrupts the British plan, it may more than just limit the U.S. role: L before 1997, it would raise the quest of who's in charge of Hong Kong.

By Pete Engardio in Hong K

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EDITED BY JOHN PEARSON

ARE THE CZECHS WILLING TO PAY THE PRICE OF CAPITALISM?

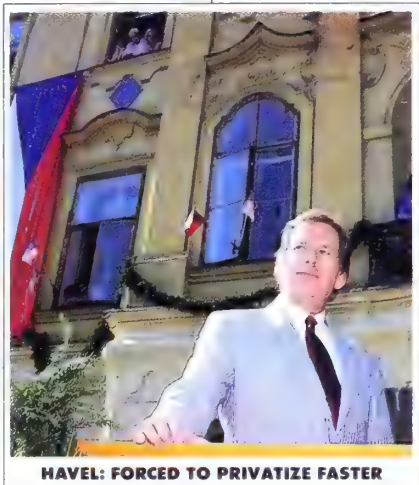
Czechs toppled their communist rulers with surprising ease last December, but now the "velvet revolution" is turning harsher. After months of heated debate among dvisers, President Václav Havel has given up his hopes for a ainless, go-slow transition to a market economy and is back- ıg more radical measures. Reformers led by Finance Minister áclav Klaus will try to push a package through Parliament to ıke effect on Jan. 1, including the rapid freeing of prices, an ıd to most subsidies, and sweeping privatizations.

If legislators adopt such a plan, as ex- ected, it will catapult the Czechs onto a ıst track in rebuilding a market economy. p to now, Hungary and Poland have een far ahead in efforts to ditch central anning and spur private enterprise.

GONIZING. Czechs may be hard to con- nce, however, that the gain will be worth ıe pain inflicted by the 23 laws that laus and his team will submit to Parlia- ent. The reforms could bankrupt up to ıe-third of Czech industry and send un- nployment skyrocketing. The shakeout ıuld also cost Havel, who has called his lministration one of national sacrifice, ıe 1992 national election. "This govern- ent will be defeated by the very condi- ons it is forced to bring about," says a ıior Parliament member.

During a recent weekend at his dacha, Havel and advisers gonized over how to persuade Czechs to accept lower living andards. Czechoslovakia was a prosperous industrial nation efore World War II, and Czechs haven't experienced as much ivation as Poles and Hungarians. Many still yearn for a mfortable "third path" between socialism and capitalism.

As a result, public opposition could force Havel to water wn his approach to privatization, the core of the reforms. A mpromise already agreed on provides for a range of privati- tion methods, from sales to foreign investors to the issuance of vouchers. These vouchers will be sold or given to Czech citizens and exchanged by them for shares in privatized companies. But the more the government relies on vouchers and local investors, the less it will be able to attract urgently needed foreign capital. "We won't get new management, markets, and technology by giving away shares," says Czech Industry Minister Jan Vrba.



HAVEL: FORCED TO PRIVATIZE FASTER

To help win public approval of privatization, reformers are counting on a handful of showpiece deals this fall before the new laws are passed. Furious rival bidding by Volkswagen and Renault to form a joint venture with auto maker Skoda, officials hope, will enable Prague to strike a bargain that will avoid massive layoffs and keep a majority Czech stake in the venture. The government also plans to return to former owners 70,000 small retail and service shops that were nationalized in the 1950s. Several hundred thousand more will be sold starting in January, with preferences for employees and with no-interest loans to help them buy.

But rival ownership claims and legal battles may make it impractical to give back businesses to original owners. And it will be difficult to sell property in a way that spreads wealth equally, despite the strong egalitarian strain in Czech society. "For 40 years we were told everyone has the same size stomach, so no one should earn more than his neighbor," says Fidelis Schlée, one of a handful of Czechs who are struggling to start small businesses.

Havel has little choice, however. He has to move faster toward private ownership to counteract soaring oil prices and the crumbling of Soviet-bloc trade ties. An effort to sell off state property, in a way that makes all Czechs happy, is a luxury the government can no longer afford.

By Gail E. Schares in Prague

LOBAL WRAPUP

MEXICO

President Bush's request to Congress on Sept. 26 for authority to pen trade talks with Mexico is a step oward negotiations that are likely to et under way next year. Bargaining n a U.S.-Mexico free-trade pact will e joined by Canada, a partner with he U.S. in such an accord since 1989.

Even before talks begin, key goals nd strategies of U.S. and Mexican negotiators are emerging. In financial ervices, a crucial bargaining arena, President Carlos Salinas de Gortari will artly open Mexico's banking system n the next few months by letting foreigners buy up to 30% of state-owned banks, which he plans to privatize. However, Europeans are likely to be more attracted than Americans by stakes in Mexican banks. What Washington is expected to push for is more freedom for U.S. banks to do business in Mexico.

In energy, the U.S. will ask Mexico to allow U.S. companies to search for oil and produce it in Mexico, possibly under risk-sharing contracts with the state oil monopoly, Pemex. To win greater access to Mexican oil supplies, Washington will also ask Mexico to ease limits on the share of its oil that can be sold to the U.S. Although nationalist restrictions on oil are written into the Mexican constitution, Salinas has shown that he can persuade Mexico's congress to amend the charter. He is likely to use oil as a bargaining chip to win concessions on issues such as U.S. import curbs on Mexican steel and textiles.

Salinas also wants an opening for more Mexicans to work in the U.S. But to avoid stirring a U.S. debate that could slow the talks, he probably won't try to push this issue onto the agenda. He may find it harder to duck another source of controversy: Mexico's electoral and human rights abuses. U.S. congressional committees are likely to use the trade negotiations as an opportunity to spotlight such shortcomings.

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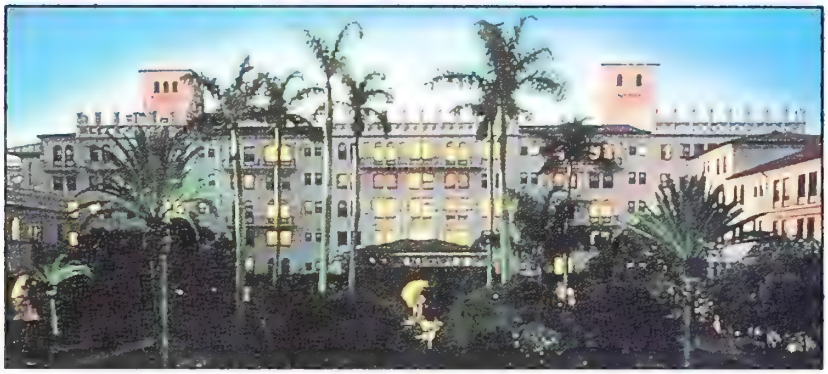

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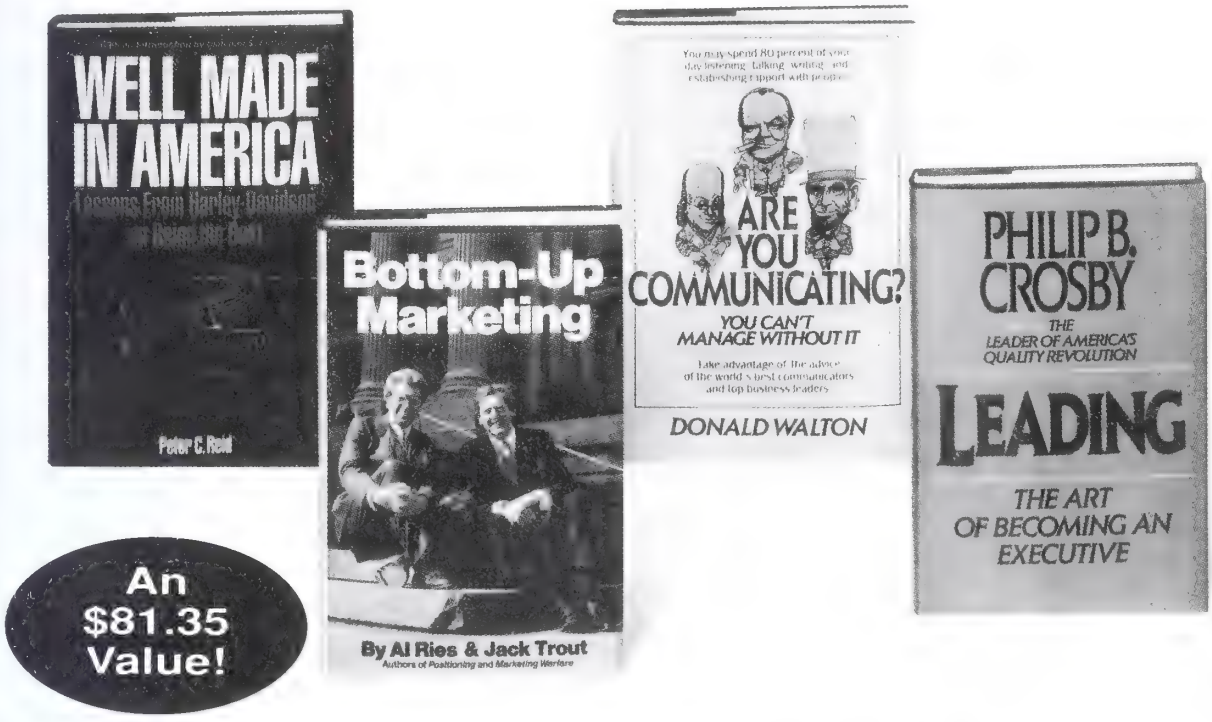

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TRENDS

MANHATTAN SERENADE: LERNER'S TRIES TO MAKE CUSTOMERS FEEL GOOD ABOUT THEMSELVES

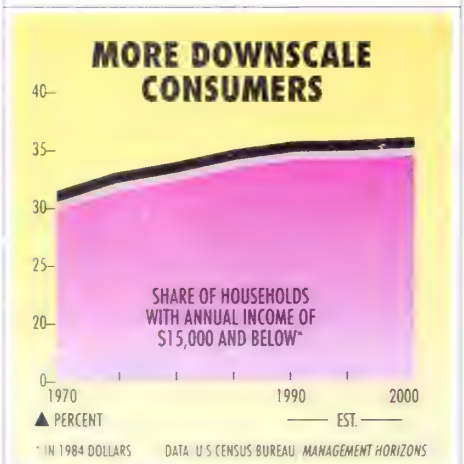
LOOKING DOWNSCALE —WITHOUT LOOKING DOWN

Why retailers have started catering to low-income shoppers

War jitters. Higher gasoline prices. Rising unemployment. Tighter credit. No wonder consumer confidence has hit a seven-year low and retailers are worried that skittish customers will let their expensive merchandise collect dust on the shelves. Even such prestigious stores as Bloomingdale's and Bergdorf Goodman are giving more floor space to costume jewelry, scarves, and other lower-priced items these days in hopes of attracting dollar-conscious shoppers.

But beneath the current recession fears and general belt-tightening, some marketers say they see a more fundamental development in the economy: the gap between rich and poor Americans that is likely to keep growing. Union influence, which once commanded premium wages for workers, continues to decline along with the manufacturing economy. The educational requirements needed for better-paying jobs keep getting stiffer. Divorces continue to break families up into smaller, less affluent households.

According to retail consultants Management Horizons, by the year 2000, these barriers to upward mobility will bring the number of households with annual incomes of $15,000 or less (in 1984 dollars) to about 36% of the total in the U. S., vs. 31.2% in 1970. That translates into almost 40 million families and a market that many retailers, manufacturers, and financial-services companies are deciding is too big to ignore. American Express Co., for examp has launched a natio wide effort to mark money-wiring services the poor. The Limite Inc., which owns Vi toria's Secret and La Bryant chains, is no wooing lower-paid wor ing women with i spiffed-up Lerner/Ne York chain. Others, su as Fingerhut Corp which has long targete the less affluent mail-o der customers, are co tinuing to chalk up i pressive gains.



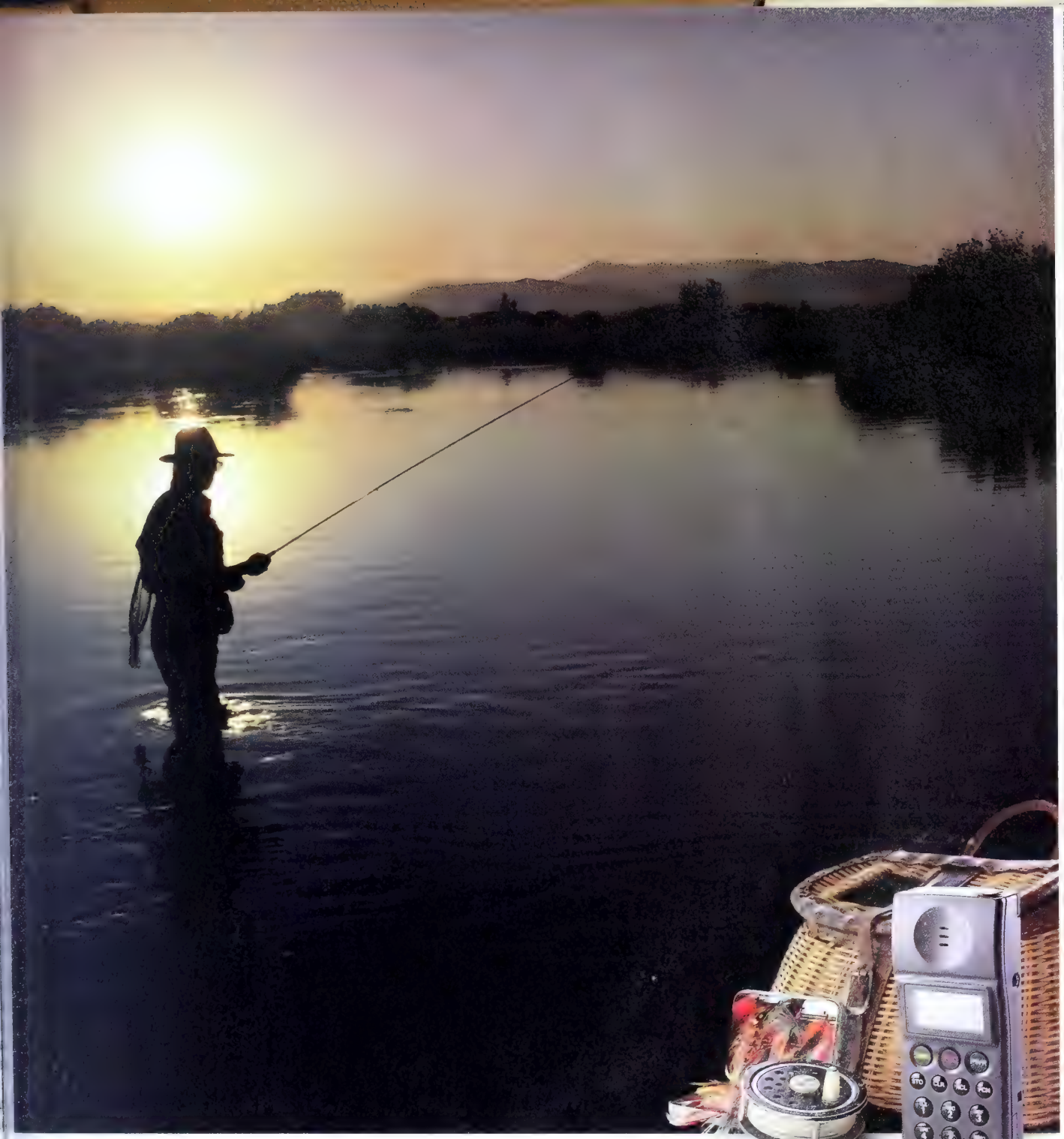
One attraction of th downscale market is tha although the people do have much money spend, the margins the things they do b can be enormous. Reta ers say this helps offs their higher credit risk But critics contend th some retailers are engaged in profitee ing. New York City is conducting study that attempts to prove statistica what has always seemed a truism: T poor tend to pay more and yet get les "There's a pattern of companies who fer higher prices but poor quality to ner city neighborhoods," argues Ne York City Consumer Affairs Comm sioner Mark Green.

While nobody is suggesting that mo marketers are doing anything illeg profits that are too highly visible pr ent public relations problems. And ma keters already are discovering that tracting low-income families is a tric job that requires just as much sophis cation as selling to the rich—maybe ev more. "Nobody likes to be reminded th they are poor," says retailing consulta Kurt Barnard.

DREAM TIME. Another consultant, Ma C. Particelli at Booz, Allen & Hamilt Inc., points out that the downscale sh per, like anyone else, aspires to a bet way of life. He notes that poor peo often seek "small indulgences," or t status that comes from premium brar of liquors, foods, and electronics.

They also want respect. Compan such as discounter Wal-Mart Stores In which emphasizes courteous service well as good prices, have already ma their mark by convincing lower-inco customers they are special. But few o ers have adopted such a thoughtful proach. "This market has been a negle ed one in many ways," says Particell

Now, more companies are trying s



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vier strategies to reach these consumers. Last year, for example, Adolph Coors Co. unveiled its Keystone brand. Although Keystone sixpacks are priced from 10¢ to 40¢ below premium U. S. brews, the company is stressing Keystone's quality with the slogan "Bottled Beer Taste in a Can." In the subpremium category, Keystone's approach has already made inroads by contrasting itself with the downscale image of some competing brands. After just one year, Keystone has grabbed about 4% of the subpremium market, establishing itself in the No. 4 slot behind Busch, Old Milwaukee, and Pabst. "We've been fairly successful tracking older white males with slightly lower incomes," says Craig Guthrie, Keystone brand director.

FORMAL AFFAIR. Retailers are also learning more about the downscale market. Before The Limited Inc. bought it in 1985, Lerner's was a struggling, poorly lit chain of bargain emporiums serving lower-income working women. The Limited decided the grim decor in these stores was all wrong. It launched a sweeping renovation to create elegant shops that still offer low prices but make the consumer feel good about herself—and ready to spend more. "We want to give our women a lot of ego, and we don't want to remind them of budget constraints," says Carol S. Feinberg, Lerner's executive vice-president for marketing.

Lerner's flagship Manhattan store, for example, boasts a peaches-and-cream color scheme, a high rotunda, and a tuxedo-clad piano player. But a rayon dress costs only $60, while a cardigan sweater goes for $25. On a recent Friday, the store was jammed. Lerner sales have gone from $675 million in 1986 to $1 billion today: The chain plans to expand from 800 stores now to 1,200 by 1992.

> Even marketers who have carefully nurtured a silk-stocking image are now wooing poorer groups

The $1 billion cataloger, Fingerhut, also caters to this desire for quality goods and service. Even in the middle of a general slump in the catalog business, Fingerhut, a unit of Primerica Corp., is enjoying 14% compound annual sale and 10% operating profit growth by ca tering to the working class. "We've d veloped a rapport with" the low-incom consumer, says Fingerhut CEO Theodor Deikel, who expects the segment t grow in influence during this decade.

Fingerhut's "rapport" comes from proprietary data base of more than 2 million primarily poorer consumers. Th data show these shoppers want fair expensive merchandise on easy terms even though many Fingerhut custome have little or no credit. Using its data t figure credit risks better, Fingerhut o fers easy installment plans for buyin such well-known products as Sharp VH camcorders, L. A. Gear sneakers, ar Minolta cameras.

While Lerner and Fingerhut have downscale heritage, even marketers wh have carefully nurtured a silk-stockin image are now wooing poorer group American Express is going after the $3 billion market for money-wiring service now dominated by Western Union Cor After first testing the concept in 198 American Express recently took its Mo eyGram service national, using the pa ent corporation's established reputatio among travelers as a strong selli

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oint. The company is etting the word out rough local radio and levision ads, often on panish-language and her ethnic networks. lready, MoneyGram is andling about 1 million rt of an estimated 11 illion industrywide ansactions. It has rved out a thriving siness in Southern alifornia among Mexi- n immigrants wiring oney back home.

DEAL. American Ex- ess is not just pursu- g this market because is growing larger. ie profit potential for oneyGram is enor- ous: The division charges an eye-pop- ng $12 to wire up to $100. But Ameri- n Express Vice-President Jay Giesen gues that the company offers a vital rvice to those who don't have tradi- nal checking accounts. "In lower eco- mic groups, people often don't have a eans to transfer money," he says. Fin- rhut shoppers who pay for merchan- ie on installment plans often are faced th an annual finance charge of 24.9%—considerably more than the 19% or so charged by most issuers of major credit cards.

MIGRANT WORKERS WIRING HOME AMERICAN EXPRESS MONEYGRAMS

Renters of furniture and electronics charge a hefty premium, too. Aaron Rents Inc. in Atlanta, for example, offers a rent-to-buy plan over 12 months for a $200 videocassette recorder. Renters pay $49.99 a month, or about $600 over a year for the gadget. Sound unreasonable? "We help people with absolutely no credit, who have nowhere to go," argues Ken Butler, a vice-president with the retailer, which has built up a $160 million business enjoying a growth of more than 10% a year. Such reasoning raises the ire of critics such as New York consumer chief Green.

Still, these marketing approaches are bound to multiply in the 1990s now that the economy is showing signs of deep distress. And the appeal of toning down ritzy pitches is probably more than a short-term fad, figures Stephen G. Bowen, president of ad agency J. Walter Thompson USA. "There's certainly a reaction to the conspicuous consumption of the 1980s," says Bowen, who expects the downscale trend to continue. "Now, it's O. K. to be regular folks." Especially when regular folks represent one of the most important markets in the U. S. for the next decade.

By Brian Bremner in New York, with bureau reports

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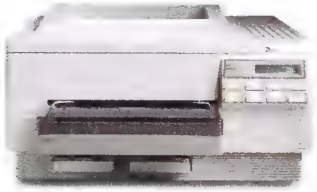

HEWLETT PACKARD

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DEALERS

GALLERY AOYAMA: MORISHITA'S AGGRESSIVE TACTICS HAVEN'T ENDEARED HIM TO THE REST OF THE ART WORLD

THE BILLION-DOLLAR BUYER WHO CAME FROM NOWHERE

Upstart Yasumichi Morishita is the dealer to watch this season

Renoirs by the dozen, Monet in bulk, and van Gogh if it's a bargain. Hardly the best way to make a name among art-world snobs. Yet that's the path Japan's Yasumichi Morishita, the shrewd master of a shadowy moneylending, real estate, and golf course empire, is following. "Our goal is to be the most famous specialist gallery of Impressionist and post-Impressionist art in the world," boasts Kiyotaka Kori, Morishita's right-hand man and manager of his Gallery Aoyama in Tokyo.

Just two years into the business, Kori says he has spent more than $1 billion on art, largely at Christie's and Sotheby's auctions. Morishita, with Kori and several interpreters in tow, also tours galleries in Paris, Geneva, and New York, making private purchases that lead to predictable consequences in the auction rooms. "Every dealer who comes to the sales tries to get his business card into Mr. Kori's hand," says a source who has observed the spectacle.

Now more than ever, a lot of people are watching Morishita and Kori. Spurred by the mighty yen and the desire for a hot investment, the Japanese have spent billions on art in recent years, lifting prices to dizzying heights. They now account for about 30% of all buying in the international art market. Even last spring, when economic woes caused the art market to stumble, the Japanese kept buying. In the first six months of 1990, the value of paintings imported to Japan soared 172%, to $1.9 billion. With the fall art season about to kick off, auctioneers and dealers alike are sweaty-palmed, wondering if the Japanese will again be there in force.

Morishita, 58, holds part of the answer. Art experts know the will always be buyers for masterpiec If paper tycoon Ryoei Saito had plunked down $163.3 million last May buy van Gogh's *Portrait of Dr. Gac* and Renoir's *Au Moulin de la Galet* someone else would have. But it's t sale of middling-quality paintings th makes or breaks the season. And th are what Morishita—via Kori—bu Last November alone, Kori paid $1 million for more than 100 paintings. "I keep prices at this level, you have have buyers like Morishita," says a major New York dealer.

GRAND PLAN. According to Kori, 40, art world can relax a little. He says h be buying this fall. In the next f years, he adds, he plans to spend $3 million annually to exec Morishita's grand plan.

Morishita has long c lected Japanese and Eu pean paintings. But art came the object of business affections only a few years ago. Sudden his Aska International began showing up regu ly on the list of buyers Christie's and Sotheby Then, a year ago, he stir takeover fears at Christ when he bought a 6 stake for $54 million.

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later told reporters that he would like to own stock in Sotheby's, too.

Kori, speaking for Morishita, denies any takeover ambitions. Instead, the two are concentrating their efforts on Aska's Gallery Aoyama. Although it opened, with a hefty 200 paintings in stock, only in November, 1988, it's now the second-most profitable gallery in Japan: It posted income of $7.6 million on sales of $73 million in 1989. Already it has expanded. To help house its $450 million inventory, it opened a second gallery nearby last February. That record is all the more striking because Aska's galleries are located not in the flashy Ginza district, where most big Tokyo art dealers are situated, but in the monied Aoyama district, which is more residential.

But it's not surprising for a maverick such as Morishita. The son of a storekeeper from Aichi Prefecture, west of Tokyo, Morishita opened a textile business after graduating from high school. His fortunes soared as he expanded into finance and real estate. In 1968, he founded Aichi Co., a moneylender and known stock speculator that's now the center of his complex corporate web. An Aichi unit owns 51% of Aska, which once sold violins and now peddles Italian furniture, golf gear, and helicopters, in addition to art. Morishita's affiliated companies also own nine lucrative courses in golf-crazy Japan, plus several elsewhere, including the Desert Falls and Mesquite country clubs in California.

Morishita's aggressive activities have clearly brought him monetary success. He drives a Rolls-Royce, lives in an elaborate home in a posh part of western Tokyo, and owns several other houses—10, by some accounts. But some deals have also gotten him into trouble. Twice, he has been convicted for stock fraud and extortion, though his sentences were suspended. Twice more, he has been arrested without being indicted. The Japanese press calls him "the viper." He's suing the weekly magazine *Shukan Bunshun* over a story it ran last November tagging him "The King of Shady Money."

Morishita declined to be interviewed by BUSINESS WEEK, and Kori won't discuss the cases. "Everybody has a past. Forget the past," he says. But the sharp tactics certainly haven't made Morishita many friends in the pretentious art world, where he's described as arrogant, shrewd, and ruthless. A major Parisian dealer who has sold Morishita a few pictures, and who requested anonymity, says he would do it again, but grudgingly. "He has a horrible attitude," he complains. One well-connected New York source says: "This gentleman does not wear masks. He has conquered many markets, and he's after this one. I think he enjoys intimidating people."

Back home, the Ginza crowd—which has seen upstart galleries such as Aska's capture half of the Japanese market—keeps Morishita at arm's length. Kazuo Fujii, owner of one of Tokyo's oldest galleries, commends Morishita's business acumen, but stresses that he has no relations with Aska. Another Ginza gallery owner sniffs: "We don't scorn them, but we can't respect them."

Some art world observers believe Morishita purchased stock in Christie's to boost his reputation—a sort of gilt by association. If so, it backfired. Soon after Morishita bought the stake, Lord Carrington, the auctioneer's chairman, was queried about a potential takeover. He brushed off the prospect, asking: "If Satan made a bid, for example, he would have to make up his mind whether he would get anything for his money. Would he get the people, or would Satan's reputation rub off against his investment?" Morishita has had no contact with Christie's corporate management, says Finance Director David Tyler.

Kori, who spent four years as Morishita's private secretary before taking over the gallery, dismisses all critics with a wave. "They are stupid," he scoffs, chain-smoking in Aska's lavender-walled gallery. "They are just jealous." Still, Morishita likes to distance himself from Aska. Kori insists Morishita is only an adviser to the gallery, not an owner. But he acknowledges that he must get Morishita's approval for any purchase over $10 million.

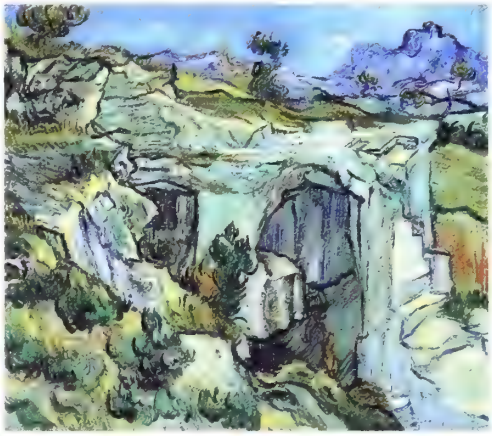
SAFE BET. In any case, Kori gets 10 to 20 faxes every day peddling art and his phone rings steadily. No art expert, he buys conservatively, sticking with Impressionist and post-Impressionist works that appeal to the relatively unsophisticated taste of many Japanese buyers. At auctions, Kori usually stays within the house estimates. "There are not impulse or emotional buyers," agrees one source. Kori wanted *Au Moulin de la Galette*, for example, but quit bidding at $3 million—long before it sold for $78.1 million. Aska's biggest buys include van Gogh's *Carrière près de Saint-Remy* for $11.55 million (table) and Picasso's *La Maternité*, which Morishita kept for himself. Kori claims he has gone as high as $30 million, privately, for a van Gogh. He says Aska's clients—some 60 companies, brokerages, banks, and insurers—pay markups ranging from 3% to 50%.

Kori says he buys what he likes in case a bad day in the stock market makes a client feel too poor to complete a deal—a not-so-unlikely possibility this year. On the other hand, a declining stock market makes art look like a safer bet. Indeed, investment groups, such as real estate developer Maruko Co., keep cropping up to sell co-ownerships in blue-chip art works, promising to triple investors' money in 5 to 7 years. Yoshihiro Nomura, editor of *Nikkei Art*, sees Japanese buying lasting a good five more years.

If so, Morishita's ultimate goal may just be reachable. And no doubt Kori, now a familiar face to art mavens, will continue to be seen in the front rows at the auction rooms, gripping a telephone connecting him to Morishita in Tokyo—a picture that brings enormous comfort to the art world.

By Karen Lowry Miller in Tokyo, with Judith H. Dobrzynski in New York

MORISHITA'S TOP DOZEN BUYS



Works purchased publicly		Millions of dollars
VAN GOGH	*Carrière près de Saint-Remy**	$11.55
PICASSO	*La Maternité*	11.20
GAUGUIN	*Entre les Lys*	11.00
PICASSO	*Au Moulin Rouge*	8.25
VUILLARD	*La Table de Toilette*	7.70
VAN GOGH	*L'Homme est en Mer*	7.15
GAUGUIN	*Petit Breton a l'Oie*	6.82
MONET	*Fin d'Après-Midi, Vetheuil*	6.55
RENOIR	*Portrait de Gabrielle*	4.62
MONET	*Bords de la Seine, un Coin de Berge*	3.74
CAILLEBOTTE	*Pêcheurs sur la Seine*	2.06
MONET	*Promenade*	1.43

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SEMICONDUCTORS

JERRY SANDERS' REVENGE

Advanced Micro may soon be able to clone Intel's 386 chip

Four years ago, when Advanced Micro Devices Inc. staged an executive retreat in Hawaii, Chairman W. J. "Jerry" Sanders III was asked to enter a 10-kilometer race. It was simply a morale-builder, but Sanders, while fit at age 54, refused to go up against the dedicated runners on his staff. "I'm not putting myself in a position where I can't win," he said.

With that kind of attitude, Sanders should be incensed right now. In 1990, Wall Street expects that AMD's revenues will decline for the third year in a row—by 2%, to $1.08 billion. Worse, the company will probably slip back into the red after just two profitable years in the past five. Too many products are old and unprofitable—and AMD is still struggling to recover from a setback dealt by its ex-partner, Intel Corp.

CUTOFF POINT. AMD has long been a licensed manufacturer of Intel microprocessors, and, in fact, almost matches Intel's sales of 286 chips, which spawned the AT class of IBM-type personal computers. As sales of Intel-designed chips rose from 3% of AMD's revenues in 1985 to 10.5% in 1988, their hefty margins helped lift AMD into the black. Then, Intel shut off the spigot. In 1987, it refused to license manufacturing rights for its new 386 microprocessor. Intel General Counsel F. Thomas Dunlap Jr. says AMD had no designs of equivalent value to trade—as required by a technology-exchange agreement the two signed in 1982. That hurt, because market watchers expect 386 sales to reach nearly $1 billion this year—while 286 prices have tumbled by half.

But the way Sanders tells it, AMD is now poised for a rebound. Analysts believe his optimism is grounded in a new microprocessor, expected to be unveiled later this year, that will be the first clone of the 386. Sanders won't confirm that a clone is ready, since he still hopes that an AMD suit, now in arbitration, will force Intel to grant him a license. But he insists that AMD will sell a 386-type chip one way or another. "We need [that chip] to be a great company."

Actually, he may need a little more. Once, AMD was renowned for its technology and marketing. But like many of its peers, the Sunnyvale (Calif.) company was hurt by Far East competition. A chip recession in 1985 touched off a three-year string of losses totaling $169 million, forcing Sanders to close plants and drop commodity products. AMD quit making dynamic random-access memory (DRAM) chips, the most widely used chip of all, and scuttled plans to develop several other kinds of memory chips.

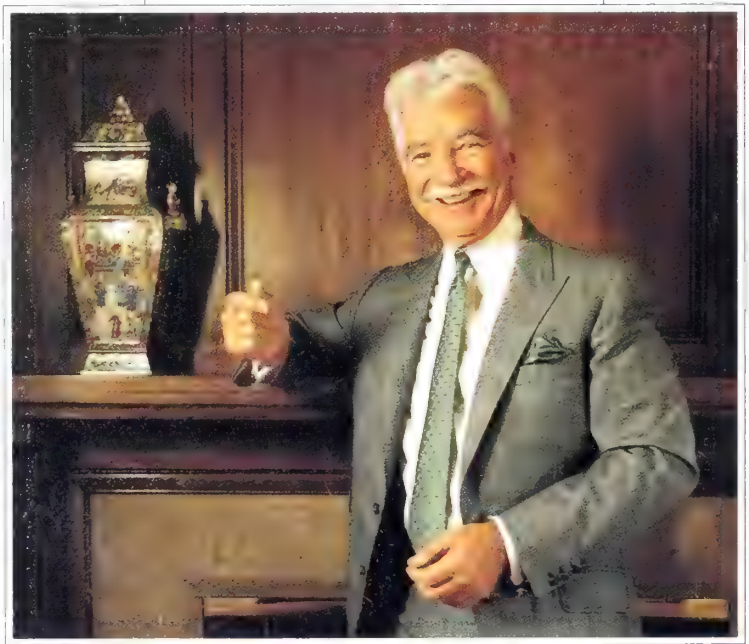
Instead, Sanders bought Monolithic Memories Inc. for $438 million in sto in 1987. That deal catapulted AMD in the lead among suppliers of programm ble logic devices (PLDs). These are brai chips that buyers can customize the selves in small numbers to "personaliz their products. The PLD business counts for about a third of AMD's sal and it remains lucrative. Offsetting t PLD profits, though, is AMD's low-marg line of so-called EPROMs, which contr ute 30% of revenues. EPROMs are p grammable, too, but they are anoth type of memory chip—and also subje to heavy price pressure.

'A LOSER.' These troubles have coincid with an exodus of key managers, incl ing Senior Vice-Presidents John C. Ea Michael Callahan, and Geoff Tate. though most say they simply had offe too good to turn down, a few are m bitter. One notes a widening percepti that "AMD is now a loser."

Some critics blame that on Sande He enjoys a lavish lifestyle, owns sev al luxury cars, and collects expens wristwatches. Recently married, he li in the exclusive Los Angeles suburb Bel Air and spends one or two days week working in his L. A. office. "Wh you live 400 miles away, it's difficult be a full-time CEO," says Daniel L. Kl ken, an analyst with P dential-Bache Securit Inc. "He needs to lead walking around," agr T. J. Rodgers, who l AMD in 1982 to start press Semiconductor Co When Sanders ta charge, adds Rodgers, can inspire intense loya

Sanders scoffs at naysayers. He notes t he has lived in Bel since 1979, long bef AMD started slipping. can be CEO anypl there's a phone," he torts. And, he conten many of the executi who left helped ca AMD's troubles. "The c pany is stronger for h ing lost these guys."

But that doesn't s the problem with Intel. der their 1982 pact, the compan agreed that each could make the oth chips, setting up a point system to r each product and ensure equal va Intel argues that AMD didn't hold up end. AMD says it was never given chance. The judge's decision sho come any day now. Few analysts legal experts expect AMD to win, sinc still hasn't shown that it can recipro



'We need that chip to be a great company'

JERRY SANDERS
AMD chairman

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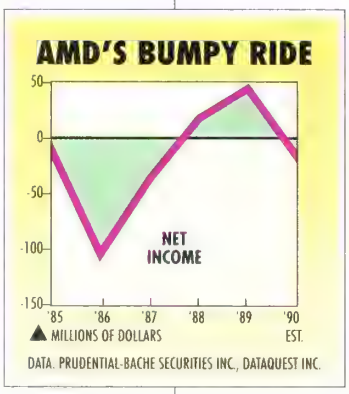
with designs as sophisticated as the 386.

So AMD is expected to turn to its clone strategy. There, Klesken figures, AMD has a good chance. He believes the company could pull in $20 million in 386 revenues next year and perhaps several times that in 1992. The clone may have a key advantage: AMD's broad patent license agreement with Intel, which legal experts say would make it hard for Intel to mount a legal challenge. That isn't true for the other companies attempting to clone the 386, notably Chips & Technologies Inc. and startup NexGen Microsystems.

CHEAP CHIPS. Many PC makers would welcome a second source for the 386, since Intel hasn't been producing enough to go around. Also, some chip buyers charge that Intel's prices have been unusually slow to come down. Unfortunately for AMD, its clone could make that happen. It should be easy for Intel to undercut any newcomer, since the 386 has been in volume production for three years. So AMD may find it tough to earn a profit on what surely was an expensive development effort.

Perhaps the biggest hurdle facing AMD is the worry among potential buyers that AMD's design won't be a perfect clone of the 386—that it could balk when running some common software. "I am very skeptical about the compatibility of the device," says Stephen Dougherty, product manager at PC maker Everex Systems Inc. AMD asserts that a 1976 agreement gives it the right to use critical Intel software, called microcode, that would assure compatibility. But Intel disagrees and has sued AMD on this issue in a dispute involving another chip. Intel claims that AMD has the right to use the microcode only for its own internal purposes, not for products that it sells.



If AMD's clone just provides a breather for a couple of years, other products may then generate more cash. For instance, AMD has developed its own microprocessor, the 29000, for "embedded" jobs such as controlling computer disk drives. It is one of a new class of superfast chips dubbed RISC, for reduced instruction-set computing. So far, the chip reaps only about $50 million in annual revenues. But its market is expanding. Hewlett-Packard Co picked the 29000 to power a device tha links computer networks. "It is probabl the most successful embedded RISC pro cessor at this point," says Michae Slater, editor of *Microprocessor Repor* a Silicon Valley newsletter.

But such emerging businesses pal alongside the 386's bi lion-dollar market. An AMD needs a blockbus er product now to ger erate the capital that i must invest in the mid to-late 1990s. Sander says he has the manu facturing capacity t take AMD to $1.8 billio in sales by 1994. Ther he will have to come u with several hundre million dollars to build new chip factory for to morrow's more advanced chips.

So AMD's future may hinge on it clone. It's a gamble, given the technica legal, and marketing challenges tha loom, but one that Sanders has to take Otherwise, he may not find the money t buy a secure future for AMD.

By Richard Brandt in Sunnyvale, Cali

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Marian Northcutt
Vice-President of Marketing
ComputerLand Corporation

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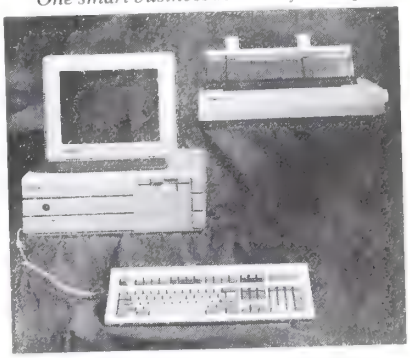

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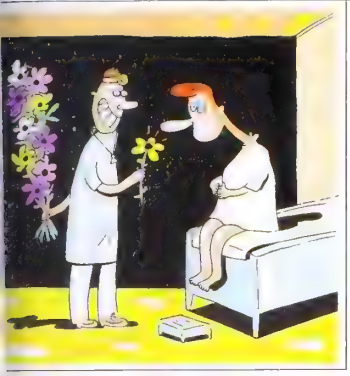

The biotech industry has thrived by copying proteins that occur in the body: The cloned drugs are used to treat diseases, such as diabetes, that are caused by protein deficiencies. And the drugs must be injected, since the stomach digests protein drugs, destroying their therapeutic value.

Taking a cue from nature, a Santa Barbara Calif.) startup wants to change that. Amer Particle Technolgies Inc. figures that if pollen can deliver allergenic proteins hrough the lungs, then pollen can do it with helpful proteins s well. Pollen grains, it turns out, are covered with tiny pikes that make microscopic cuts in the lungs. These let roteins in the pollen's core enter the bloodstream.

So Amer takes ragweed pollen, purifies the spiney capsules y boiling them in acid, and then loads them with a drug. fter giving insulin to diabetic monkeys using pollen-laden outh sprays, Amer successfully completed its first human sts this summer. Now comes the task of persuading the ood & Drug Administration that this approach isn't someing to be sneezed at.

ITACHI'S NEW SUPERCONDUCTOR S THE WARMEST YET

Since the first "warm" superconductor was discovered four years ago by IBM, the number of these remarkable materis has mushroomed. By this year, researchers had identified ur different families of superconducting oxides. The top rformer, a material containing thallium, becomes superconcting at a relatively torrid 122K—the equivalent of about 0F below zero.

Now, researchers at Hitachi Ltd.'s Superconductivity Reearch Group may have beaten that record. In September, ey announced the discovery of yet another material. This ie is made with vanadium, a common metal element used in loys and catalysts. Initial tests done by Hitachi show that the w material becomes a superconductor at a record 130K, with dications that the temperature might go even higher. If ese results are confirmed, the new vanadium oxide will pand the range of superconductors and may help scientists derstand what causes the phenomenon.

IDEO ADS ARE ETTING DOWNRIGHT CHUMMY

Video can be a compelling way to sell goods and services, especially those that are hard to describe or demonstrate. w, a tiny San Francisco company, Datavision Technologies rp., has come up with video sales pitches that are the nterpart of personalized form letters. Using Datavision's hnology, companies can create individualized videotapes to get pitches for products to consumers in various economic ackets or geographical regions—and at a reasonable cost.

Numerous coded segments of messages are stored on videodisk players hooked up to a computer and a videotape recorder. Punch in data on a prospective customer, and the computer selects the appropriate video and audio clips and seamlessly combines them on a videocassette, ready for mailing. Even the customer's name can be inserted.

Assembling a collection of clips for a series of personalized 10-minute videotapes requires 90 to 120 minutes of video production time, plus editing. That can run as little as $50,000, Datavision says, although a six-figure cost is more typical. The technique was developed for the company's management training business, where custom videocassettes replace one-on-one instruction. American Express Co. has already used the system for a promotional mailing to its cardholders.

A CURE FOR ONE OF LIFE'S MOST EMBARRASSING ILLS

Urinary incontinence is one of those unmentionable subjects. Most Americans have difficulty even discussing it, let alone coping with family members who are afflicted with it. As a result, incontinence is quietly taking a heavy toll on America's health care system: It is now the No. 1 reason behind admissions to nursing homes and accounts for 10% of the cost of nursing-home care. All told, says the National Institutes of Health, society spends more than $10 billion a year to manage urinary incontinence—$1 billion of that just for adult diapers.

But an inexpensive cure is in sight for the majority of victims. By yearend, Mentor Corp. in Santa Barbara, Calif., expects to receive approval from the Food & Drug Administration for a Teflon-based paste called Urethrin. Injected around the sphincter muscle that controls the flow of urine, the polymer helps support a sphincter that has been weakened by childbirth, prostate surgery, or aging. By increasing resistance to urine flow, the polymer can restore bladder control. The procedure requires no surgery and is permanent.

MEASURING THE GAP BETWEEN U.S. AND JAPANESE AUTO MAKERS

On Sept. 25, Massachusetts Institute of Technology unwrapped a follow-up to last year's *Made in America* study. That tome laid out the troubles of U. S. industry in general. This one, *The Machine that Changed the World*, focuses on the American, European, and Japanese auto industries.

	Japanese plants in North America*	U.S. plants
ASSEMBLY TIME PER CAR	Hours 21	25
WORKER TRAINING	370	46
DEFECTS PER 100 CARS	65	82
INVENTORY SUPPLY	Days 1.6	2.9
WORK TEAMS	Percent of work force 71%	17%

*Japanese plants in Japan rank slightly higher
DATA: MASSACHUSETTS INSTITUTE OF TECHNOLOGY

Top U. S. executives were stunned by the disparities between America and Japan, says MIT's Daniel Roos, the study's director. In turn, Roos adds, MIT researchers were surprised that U. S. auto makers hadn't done "technology audits" to learn why their foreign rivals are so successful. But what astounded the MIT team was the lack of knowledge in the financial community and Washington about the fundamentally different economic structures that Japan has brought to world competition. The U. S. needs to adjust fast to become more competitive, and that, says Roos, "is why we wrote the book."

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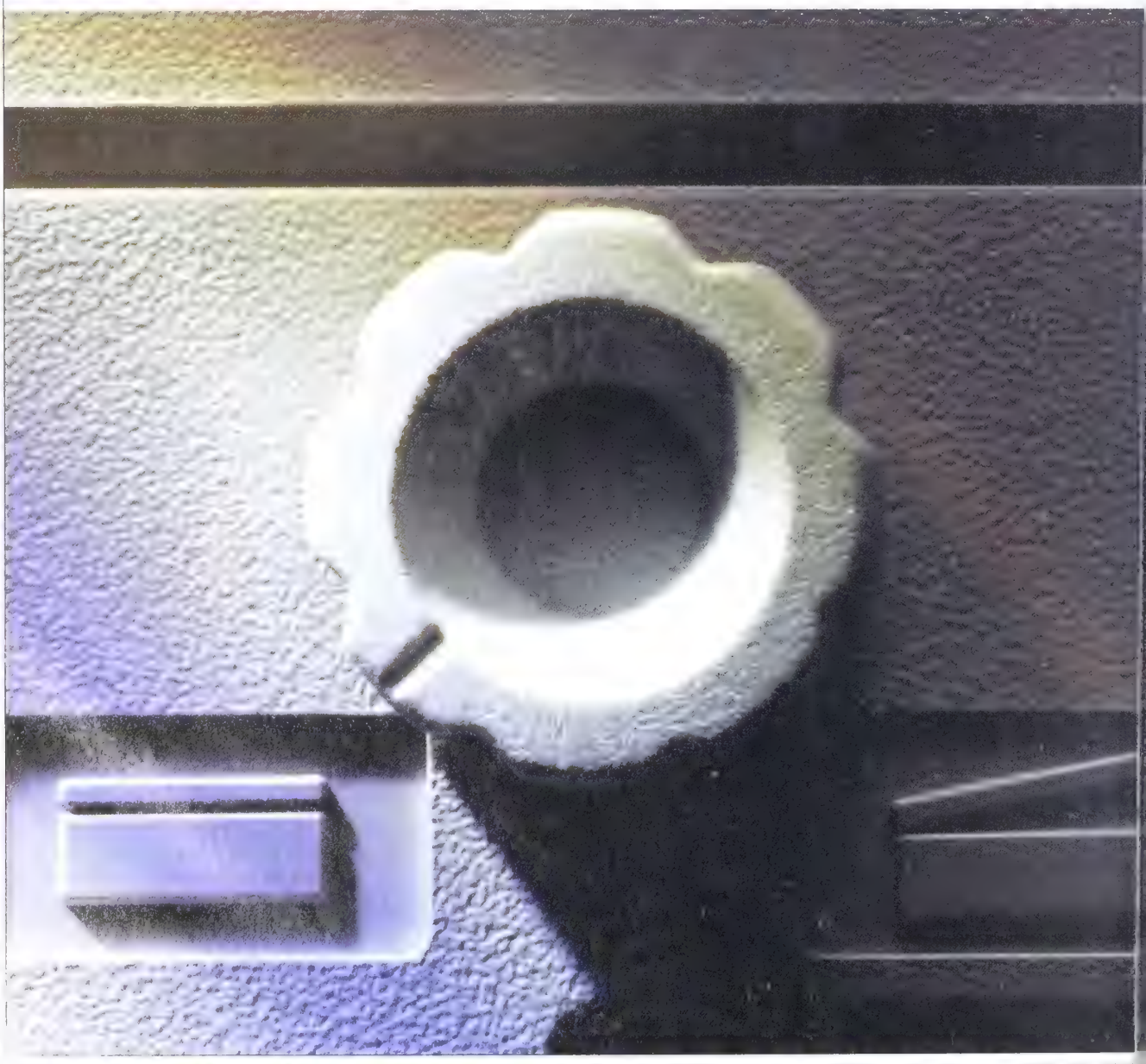

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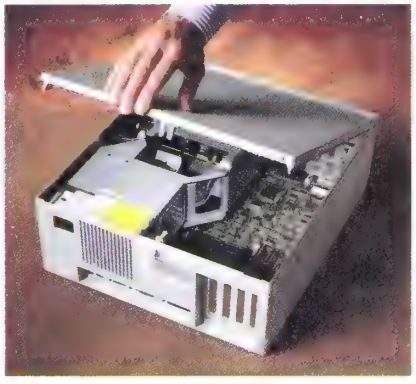
Chances are, you will eventually want to upgrade or customize your machine. Add more memory. Make it communicate on a network, or via modem.

Down to the very last detail, Epson computers are elegantly designed to this end. All of the key functions have been integrated on the motherboard, resulting in increased performance, a more compact foot-print, and greater reliability.



Inside and out, Epson computers, like the Equity® 386SX Plus, are designed for optimal performance and expandability.

In addition, the system memory utilizes some of the highest-speed chips available, with snap-in SIMMs modules that make memory expansion, well, a snap.

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You might call it a case study in superior engineering.

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EPSON

MAX WEBER IS OUT TO GET OWENS-CORNING IN THE PINK AGAIN

The fiberglass giant's new CEO takes the reins in a time of slumping auto, boat, and housing marke

Colleagues say that Max O. Weber, president of Owens-Corning Fiberglas Corp., is a demon gin rummy player. "Max remembers every card you've picked up, and he can predict what card you'll play next," says a former Owens-Corning executive who still plays against him.

With his nose for cards, Weber probably knows that he's about to pick up a pretty tough hand. On Oct. 1, the 60-year-old Weber will take the helm of the $3 billion maker of fiberglass insulation and fiberglass-reinforced plastic. His ascension comes as Owens-Corning's main businesses are in a slump. Sales of its pink insulation have sunk 10% over the past three years. Its U. S. plastics business, heavily reliant on car and boat sales, is down by 9% so far this year, and international growth has slowed sharply. Overall operating income fell 8%, to $480 million, in 1989, and Wall Street analysts expect an additional drop of 6% this year, to $450 million, on sales of $3.15 billion.

IN HOCK. The downturn will be a critical test of the financial structure put in place by Weber and retiring Chairman William W. Boeschenstein. To fend off a takeover attempt by Wickes Cos. in 1986, OCF launched a $2 billion recapitalization. It borrowed heavily to pay shareholders $81 a share in cash, junk bonds, and a new share of stock. Now highly leveraged and dependent on two of the most visibly slumping parts of the economy—housing and autos—OCF has little choice but to take a cautious approach.

Weber does have some strong cards. OCF has reduced its $2.5 billion debt by $1 billion. While cash flow is expected to fall 14% in 1990, to $340 million, that's more than enough to pay this year's interest tab of $166 million. "Of course, that ability to pay depends on how long those periods of down economics last," Weber admits.

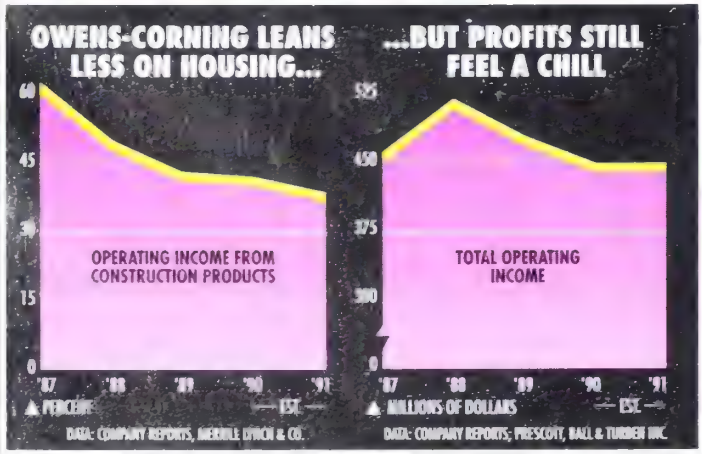
To help OCF weather those down economics, Weber is counting on a combination of cost-cutting, a search for new applications for OCF's fiberglass and plastics, and a renewed marketing push for its insulation. But there's not mu OCF can do to change the facts of life its markets. Housing starts have fall 38% over the past four years, wh OCF's insulation sales have dropped 10 to $800 million, since 1987. Pretax pro margins, once 20%, have fallen to 15%

The company has tried to reduce exposure to the volatile construction dustry by diversifying into fiberglass dustrial plastics, which produce 59% operating income, up fr 39% in 1987 (chart). But th business is feeling the pinc too. With 45% of U. S. sal coming from auto and bo makers, the unit's prof have sagged from $151 m lion in 1988 to an estimat $119 million this year. Ev in Europe, where OCF's dustrial fiberglass sa have risen 48% since 19 analysts expect revenues stay flat through 1991.

WATER JETS. Weber is wo ing to insulate OCF from t chill. Analysts say the co pany has squeezed $200 m lion out of production co over the past four years cuts that should soon p off in higher profit margi For example, OCF now us high-pressure water jets i stead of metal blades to tr insulation, producing cleaner cut with less was And it has belatedly rein lated glassmaking furna so they retain heat bet Says one executive: "We all people, should have d this a long time ago."

Weber is also push new products and appl tions for OCF's materi The company is introduc fancy new designs for its berglass roof shingles, well as insulation with ex protection. Both have hig prices—and profit marg And OCF is working with berglass customers in

WEBER AND THE PANTHER: EXPENSIVE OIL MAY BOOST INSULATION SALES



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the Nobel prize, and for an amateur painter.

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talent surprised the critics and his
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Yet it wasn't any one
those abilities, but all
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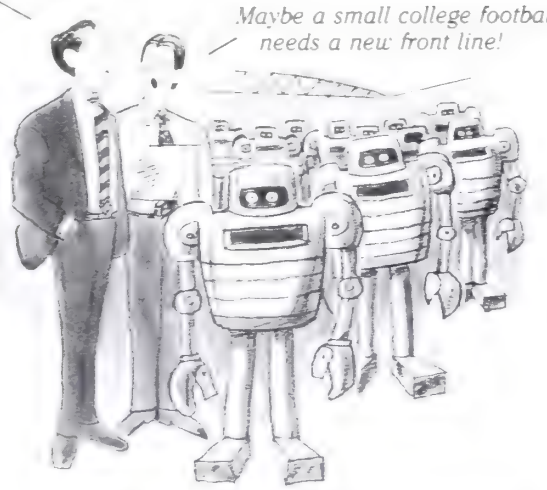

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rope to develop new uses for the mater als. Peugeot, for example, recentl agreed to use fiberglass-reinforced plas tic in the front end of its 405-series ca

Despite such successes, Weber is nov forced to contemplate more painful cost cutting measures. He'll pare capital ex penditures from 1990's $143 millior though he won't say by how much. H plans to reduce production, which ma help him extend the useful life of fibe glass furnaces. At peak output, the typically need costly rebuilding ever four years. But Weber admits that pos poning the overhaul could hurt quality "You can't do this very long," he says "The customer won't tolerate it."

OCF's image among customers isn something Weber wants to risk. Th company enjoys a 50%-plus share in i sulation, thanks in part to ads featurin the Pink Panther as the compan "spokescharacter." OCF has even trad marked the color pink in insulation. Say one retailer: "If you're going to go wit just one insulation, you'll go with pink.

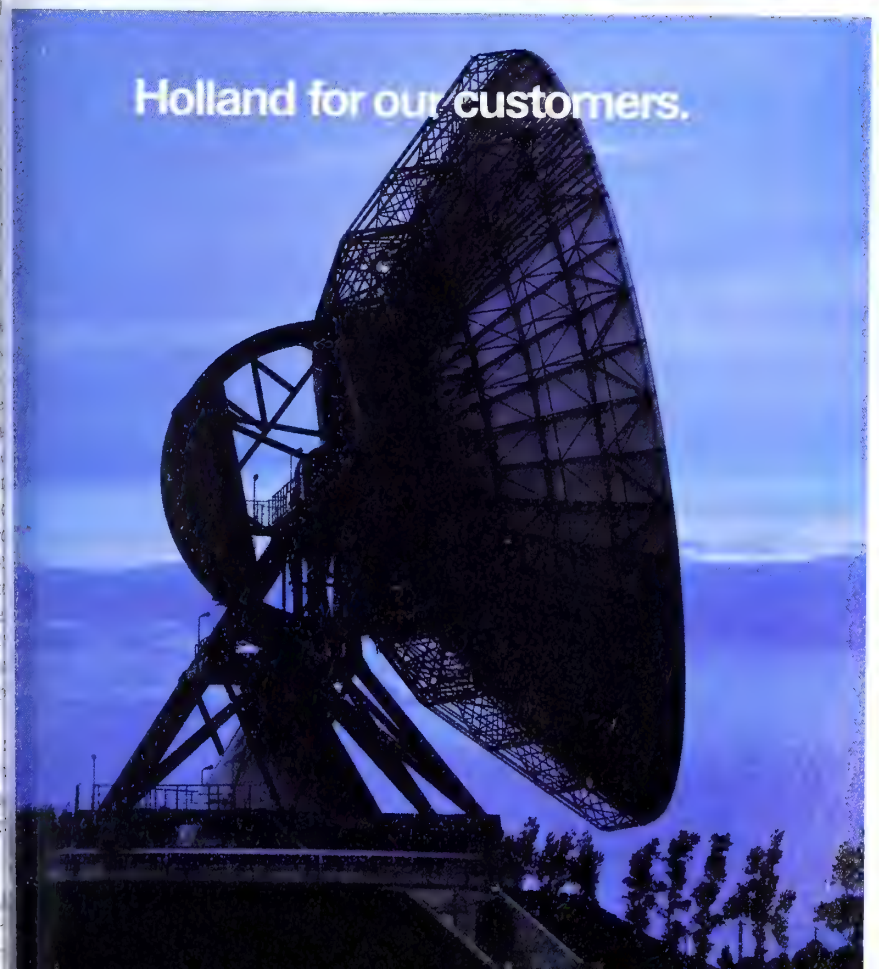
WILD CARDS. That strong position in th market could pay off in the wake of th Iraq crisis. With oil prices rising, shive ing homeowners may soon be stuffin lots of fiberglass fuzz in their attics an crawl spaces. To make sure the Panthe gets the lion's share, OCF plans to boo ad spending in the second half by abou 17 to $7 million, mostly on network That's after paring ad spending to virt ally nothing in the first half.

There are also some wild cards OCF's deck. In the early 1970s, the co pany made asbestos insulation, and no it faces 73,500 personal injury claim OCF says insurance will cover much any liability. Still, Weber is playing conservatively by adding $6 million quarter to reserves to cover claims.

Weber, an Oklahoman who joined t company in 1955 as an insulation sale man after a stint in the Navy, know something about turnarounds. He came heir apparent at OCF after headi its industrial insulation unit from 1978 1984. The quality of OCF's pipe insulati was notoriously poor: It often failed stick to hot pipes. Weber got the boa to spend $11 million to improve manufa turing, and OCF has regained the lead that market. "Things just started to better there when Max took over," sa Herbert Mullenix, former chairman North Brothers Co., an Atlanta-based dustrial insulation company.

Weber has shown that he can rescue troubled product line. This time, thoug the stakes are much higher. It looks if he can do little more than hang tou and wait for the economy to deal him better hand.

By Stephen Phillips in Tole



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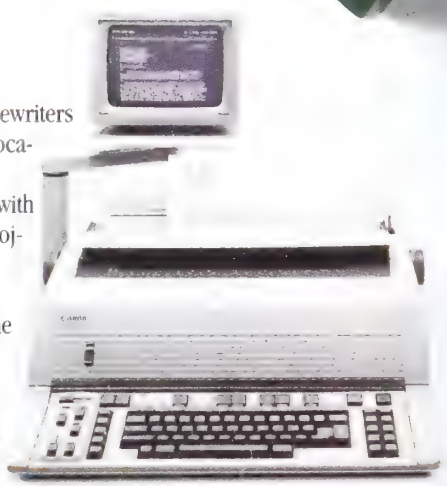

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THINK AGAIN. THINK CANON.

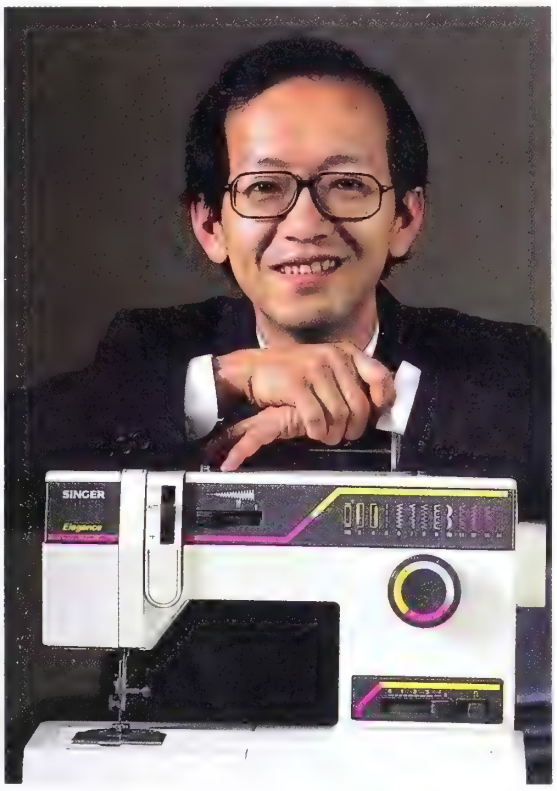
URNAROUNDS

WHAT'S IN A NAME? MAYBE PLENTY, IF IT'S SINGER

'im Ting is using the brand to push new products in new places

ames H. Ting took a big risk last year when he bought Singer Sewing Machine Co. For his cool $300 million, the shy, slightly built Canadian got a world-famous brand, a 139-year-old icon of American industry. But he also bought a company that was fast losing money and prestige.

A year later, it looks as if Ting sewed up a very smart deal. He has returned Singer to profitability by slashing staff, ditching money-losing plants, and expanding distribution. And analysts say that Singer's real estate alone may be worth more than Ting paid for the company. But Ting, a peripatetic dealmaker who built a $13 million personal computer maker into a $1.7 billion empire called Semi-Tech Group, wants more. He's embarking on a risky strategy using the Singer brand to create a global manufacturer and retailer of products ranging from refrigerators to radios.



DEALMAKER TING: AIMING AT EASTERN EUROPE

OBAL REACH. The first order of business for the 40-year-old Ting was to get Singer back on track. Singer had languished in the 1980s while management focused on the parent company's defense-related business. Ting shrank Singer's U.S. staff from 160 to just 10, sold money-losing plants in Brazil and Italy, and laid off 700 of 1,100 workers in Mexico. The savings helped Singer earn $16.9 million in the first six months of this year, after two straight years of losses. The company is now run out of Hong Kong as part of Ting's manufacturing and retailing conglomerate, which is based in both Hong Kong and Toronto. Thanks to recent acquisitions, Singer products will generate about $1.3 billion of Semi-Tech's $1.7 billion in sales this year.

Singer is best known for its sewing machines, but those now contribute just 2% of the company's sales. And only 7% of revenues come from the U.S. and Canada. Singer's global retailing system, a partly owned network of 30,000 outlets in over 100 countries, pulls in the most sales from Asia and Latin America. In those hungry economies, about two-thirds of Singer's sales come from people paying for sewing machines and household appliances on installment. Analysts expect those markets to continue to grow at a healthy annual rate of 10% to 15%.

Ting also has big plans for Europe, which now accounts for just 7% of sales. Last year, he paid $78 million to buy Singer's 600-store European retail network from European Home Products PLC. "That was a major milestone for Singer," says Ting, who works out of a closet-size office in Hong Kong. "It poises us to move aggressively into Eastern Europe."

Ting believes many Eastern Europeans still remember Singer sewing machines from before the war. So he figures that if Singer can get its own video recorders and boom boxes in fast, it can be a leader before consumers ever hear of Sony or Sanyo. "It's a very brave undertaking," says one skeptical Hong Kong appliance maker. "In developing countries, consumers want the top brands. Singer is a declining name."

ELASTIC BRANDS? Ting is planning a similar effort to broaden the Singer line in its original market. In the U.S. and Canada, where Singer has sold only sewing machines, sales have been stalled by competition from low-priced Asian competitors. Now, the company has begun rolling out a broad range of electronic products ranging from clock radios to compact disc players, some of which will bear the Singer name. But marketing experts say U.S. consumers will balk at such a diverse range of Singer products. "Brands aren't elastic," says John M. Murphy, chairman of Interbrand Group PLC in London, which helps companies develop brand names and images.

Stock market analysts are skeptical, too, but for other reasons. Chief among them: the feeling that Ting has moved too far, too fast through a complex corporate entity that trades on two different continents. Semi-Tech (Global) Ltd., which includes Singer, trades on the Hong Kong stock exchange. New issues to help pay for acquisitions have diluted its shares by 67% since July. Canadian investors are also spooked: International Semi-Tech Microelectronic Inc. recently dropped to a new low of 5 on the Toronto stock exchange, from a high of 10 in 1987.

Even if Ting flops in his bid to make Singer an industrial powerhouse, some analysts feel he could come out ahead. Soon after the Berlin Wall came down, Ting learned that Singer may own $100 million in East German properties seized after the war. Altogether, Singer's real estate around the world may be worth more than $300 million, figures Tony Tsoi, an analyst with McCarthy Securities Ltd. in Toronto. Even if Ting doesn't fulfill his ambitions for Singer, he is proving to be a very astute shopper.

By Peter Engardio in Hong Kong, with Bruce Hager in New York

WHERE SINGER SEWS UP ITS SALES

	1989 revenues Millions	Estimated growth for 1990
U.S. & CANADA	$160.4	1%
EUROPE	39.3	4
ASIA	180.5	15
LATIN AMERICA	172.9	10
AFRICA	16.3	2

DATA: McCARTHY SECURITIES LTD

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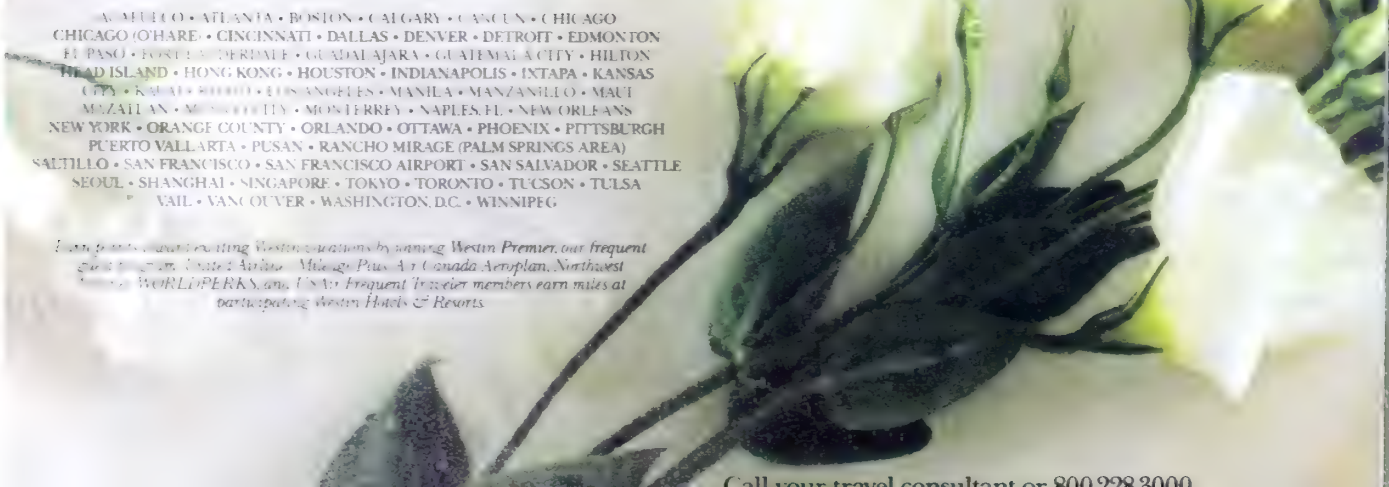

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BITING THEIR FINGERNAILS, ALL THE WAY TO THE BANK

he Persian Gulf crisis has created a windfall for refiners—so far

Bob G. Gower, chief executive of Lyondell Petrochemical, is getting dizzy. On Aug. 2, he awoke to a ghtmare. Iraq had invaded Kuwait, engering a vital source of crude for his 5,000-barrel-a-day Houston refinery. he scrambled for new supplies, oil ices skyrocketed, boosting his costs d threatening to leave him bleeding l ink. But that calamity didn't materize. In fact, he was able to raise spot soline prices by nearly 50% in August, abling his margins from a year earli-

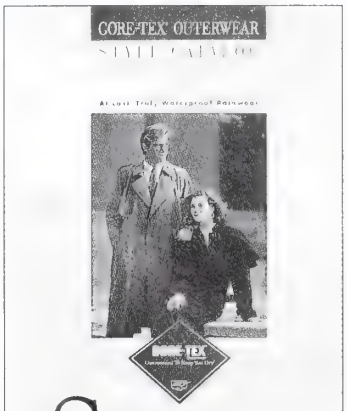
NDELL CEO GOWER: "IT'S A FRIGHTENING MARKET"

Then, just when things looked good, prices took off again—soaring to a -year high of $38.25 a barrel on Sept. The spread between what Gower s for crude and what he gets for his lucts began bouncing like a yoyo—nbling in half one day, jumping back he next. Now, Gower isn't certain of hing. "It's a frightening market," confides. "We feel like we're losing rol."

ower and other refiners have reason e concerned. Stratospheric oil prices jeopardizing an unprecedented ıg of profitable quarters that began arly 1988. Still, despite the ups and ns, refiners may be in better shape than most students of oil shocks would have bet. In past years, such price runs didn't provide a windfall for refiners, who weren't even able to maintain profit margins because of price controls and falling demand. But this time, a free market and a dearth of capacity that could last years may let them raise wholesale gasoline prices almost at will. Unless a Mideast war chokes off crude supplies, or $40 crude causes people to forsake their cars, that should also enhance profits for the major oil companies—which get 25% of their revenues from refining operations. Asserts John R. Dosher, a senior vice-president at Houston-based Pace Consultants Inc.: "Refiners are looking at more good profits ahead."

PANIC BUYING. That's the logical outcome of a trend that began in the early 1980s, when Washington ended subsidies to small refineries. From 1980 to 1987, some 117 plants representing 18% of U. S. capacity shut down, reports the U. S. Energy Information Administration. While demand has grown some 7% since then, refinery capacity has risen just 2%. Late this spring, even though gasoline demand was down 1% from the previous year, refiners were running at 93% of capacity, allowing a typical Gulf Coast operation to raise net margins to as high as $3.64 a barrel. That compares to just 66¢ in 1989, according to Purvin & Gertz Inc., a Houston-based consulting firm.

Then came Iraq's unexpected assault on Kuwait. The invasion tightened the screws, shutting down four Kuwaiti refineries that had been churning out a total of 800,000 barrels a day. Wholesalers resorted to panic buying to shore up gasoline stocks. And refiners, by then operating at 94% of capacity, were able to widen their net margins for



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This was vastly different from 1978-79 crisis, sparked by the fall of Shah of Iran. A comfortable excess refining capacity and a crazy quilt price controls made it almost impossi to maintain margins. In the current sis, Congress has strongly criticized g oline marketers for alleged price go ing. But they aren't the only ones do well. "Refiners are the ones mak money," says William E. Greehey, of Valero Energy Corp. in San Anto

GETTING FATTER. Greehey should kn As an independent refiner who sells the spot market and doesn't worry ab pump prices, he is ideally situated cash in on the recent turmoil. Valer edge is its $650 million, state-of-the-

Heeding warnings from sta officials and President Bush, the majors have bee slow to raise prices

plant in Corpus Christi, Tex. This 67,0 barrel-a-day gem "refines" residual o a cheap, gunky byproduct of crude u ally used as a fuel for industrial boil The relatively heavy oil coming into market from such places as Venezu and Mexico to replace lost Kuwaiti Iraqi crude produces more "resid" w it is refined. Other, less well-equip refineries—mainly in Europe—can't p cess their resid. So they are forced sell it on the open market, driving do prices. Indeed, resid fell from $29 to a barrel in a two-week period in Sept ber, further fattening Valero's marg

Most U.S. refineries can process sidual oil to some extent. This inclu other independents, who control so 33% of the nation's 15.6 million-barre day refining capacity. But unlike Vale most aren't dependent solely on refin for their bottom line. Ashland Oil and Diamond Shamrock R&M Inc., example, also own service stations— they are struggling to push double-d price increases through to the retail el in the face of warnings from st attorneys general and President Bush keep a lid on prices.

The same general problem confro the major oil companies. That's w they have been slow to raise prices their company-owned dealerships—p ting pressure on the thousands of in pendent dealers who sell under t brands to follow suit or lose mar share. Nevertheless, the majors w fall promises to be dramatic. In the p

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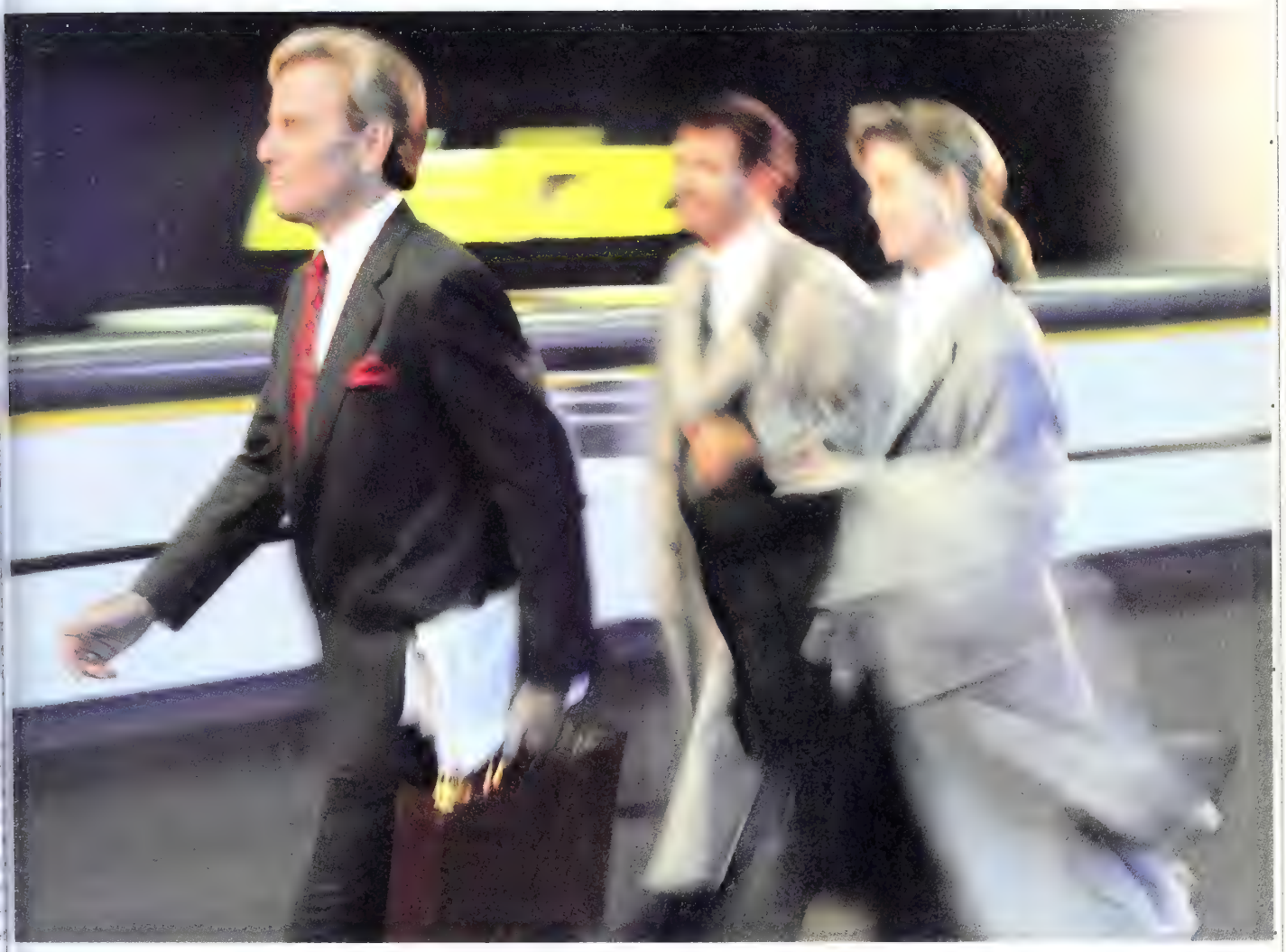

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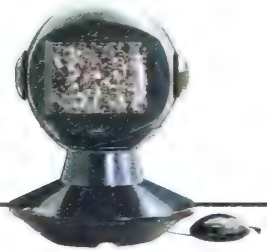

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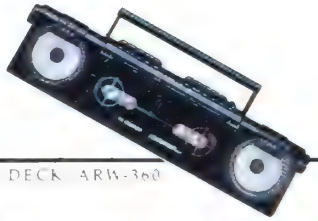

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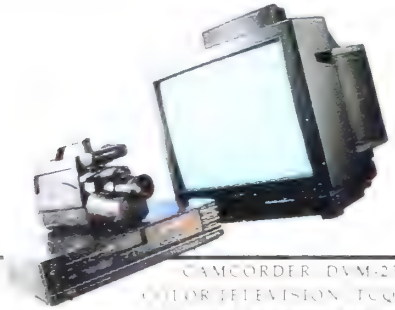

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[illegible] profits generally by higher crude prices have been somewhat mitigated by shrinking returns from refining operations. But Salomon Brothers Inc. analyst Bernard J. Picchi estimates that the majors' earnings will rise by 20% to 30% next year—with 40% of the gain coming from refining.

PRICE LOCKS. The bright prospects for U. S. refiners aren't likely to fade soon. No new domestic refinery construction is on the horizon. And Picchi notes that of 23 new foreign refineries planned for the next five years, six were to be built in Iraq and one in Kuwait. The Middle East drama could delay these substantially, meaning that tight refining capacity won't ease soon. And that spells high prices for both gasoline and heating oil,

Tight refining capacity won't ease soon, spelling high prices for both gasoline and heating oil, even if crude prices drop

even if crude prices drop. Says Purvin & Gertz President Robert A. Hermes: "As long as we're on the ragged edge [of capacity], prices will stay up."

The situation doesn't mean that refiners can't lose. In 1986, for example, crude prices crashed, leaving refiners with stocks of $25-a-barrel oil that couldn't unload for $15. Today, the futures market, which was nonexistent in the early 1980s and barely used in 1986, offers some protection—allowing refiners to guard against massive losses by locking in set prices. But they can only hedge part of their output.

Higher prices also pose a risk. Despite all the advantages refiners currently enjoy, at some point consumers may simply buy less. A gasoline or energy tax would no doubt serve to dampen demand, too. At the same time, an amended Clean Air Act, expected to be passed in the current session of Congress, [illegible] or more of new equipment, industry leaders claim. And processes to make [illegible] could drive operating costs by 2¢ a gallon, or more.

In short, after years of cyclical earnings, refiners still fret that their good luck could run out. Says Gower: "The whole thing could change either way overnight." Maybe so. But for now, even as other segments of the economy seem to buckle in the face of $40 oil, the changes seem to be going his way.

By Mark Ivey in Houston, with Robert Buderi in New York

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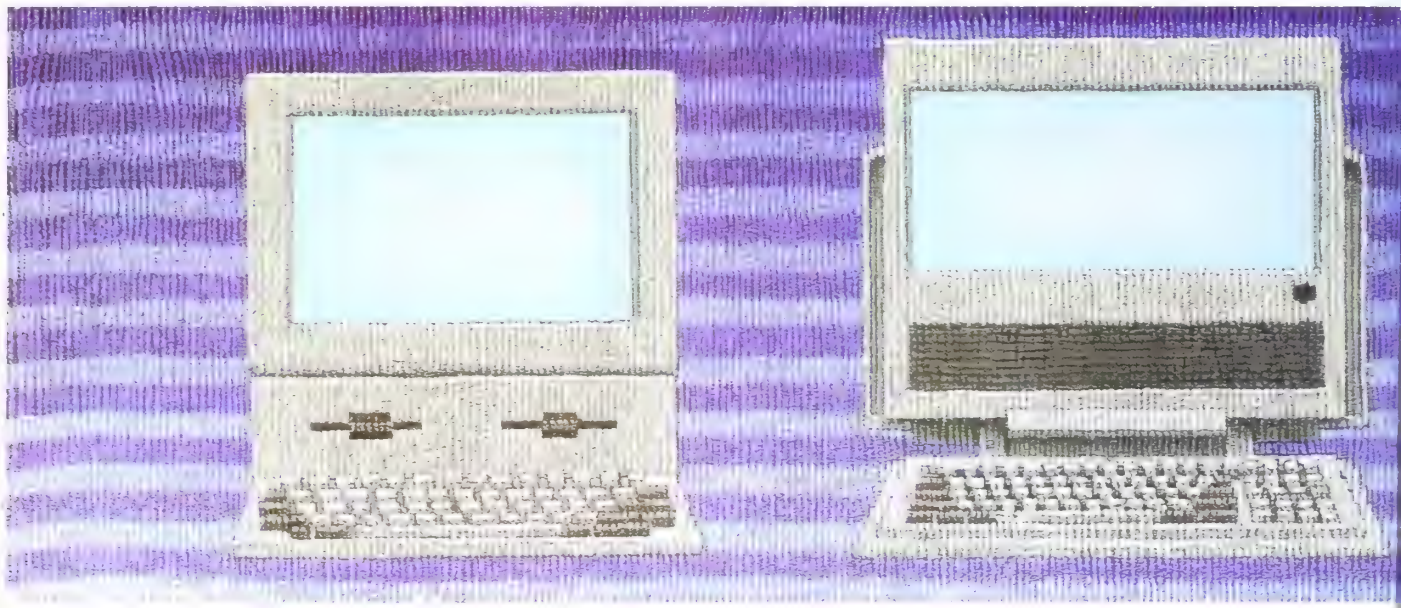

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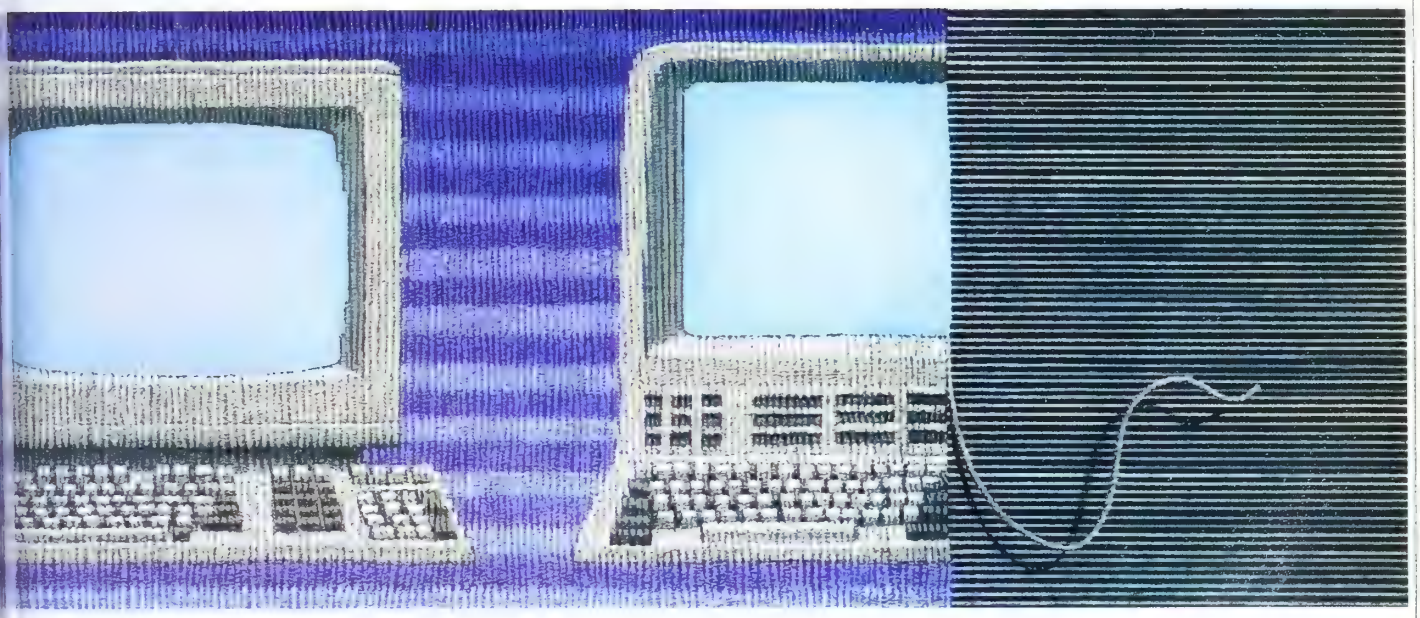

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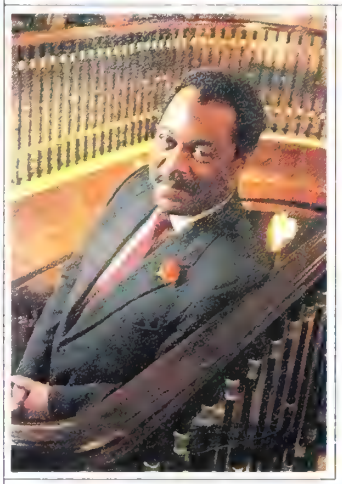
ROBERT SAMUELS: A CLUB OF MANY CULTURES



For years, Robert J. Samuels and friends lamented the absence of any place where blacks and other minority professionals could gather to hobnob and swap business cards. So last year, when the Manufacturers Hanover Trust Co. vice-president heard about an attractive space above New York's Town Hall, he decided to grab it and start a club.

It was harder than he expected. Despite $500,000 from a panel of 20 limited partners, Samuels, 52, says he got thumbs down from seven major banks when he sought further financing for renovation. Then, on Friday, July 13, the club's data base got hit by a computer virus, wiping out scores of names. "It was another of the hurdles God has put in front of us," he jokes. "But we're too close to let anything stop us."

On Oct. 11, Samuels officially opens the New Yorker Club. Most of its 400 members, who will pay a fee of $750 a year, are blacks, Hispanics, and Asians, and 25% are women. "We're making it a club of inclusions and not exclusions," he says.

It's one of the prouder achievements of a long career. The Philadelphia native began as a personal loan manager at First Pennsylvania Bank and then spent 21 years with Manufacturers Hanover in New York. Currently on leave from the bank, Samuels is now working as a liaison between local corporations and New York's public schools. But one satisfaction has long eluded him. "For some reason, nobody's asked me to join their club," he says. Now he can invite others to join his.

By Cynthia McClean in New York

LEONARD ROBERTS: CAN HE PUT MORE MEAT ON SHONEY'S?

Leonard H. Roberts had a rude awakening on his first day as chief executive at Shoney's Inc. Despite several interviews with the company's top brass, he had never actually visited the restaurant chain's headquarters. So when he pulled up at a humble, one-story building near Nashville's airport, the former Arby's CEO thought it must be a warehouse. "I even asked someone in the parking lot, 'Where do the executives work?'" Roberts says. "I couldn't believe it."

Ten months later, unimpressive digs are the least of Roberts' worries. His chief concern is the company's growth. Nearly half its 1,600 Shoney's, Captain D's, and Lee's Famous Recipe Chicken units are company-owned. But a $728 million recapitalization two years ago has loaded Shoney's with del making it impossible to keep financing growth from with Roberts, 40, must attract new franchisees.

That's a strength of his. Despite a law degree from De Pa University, the Chicago native has spent his career in foo related jobs, working on new products at Armour Food C and in food service at Ralston Purina Co. In five years president at Arby's Inc., he pumped up marketing and sale drawing 280 franchisees to the chain, which now has 2,3 stores. But he was ousted in 1989 after siding with franchise who wanted to wrest control from owner Victor Posner.

With Shoney's operating profits up 18% and sales up 1 last year, to $860 million, Roberts has a solid base from whi to work. He's calling for 500 new franchised units by 1995 many outside its stronghold in the Southeast. Some franc sees fret that such rapid expansion could jeopardize Shoney strict operating controls. But Roberts is confident his plan w work. If it does, the CEO may find himself in spiffier digs y

By Walecia Konrad in Nashvi

GEORGETTE MOSBACHER: SOCIAL SAVVY AND CORPORATE SMARTS

It was bad enough when Georgette Mosbacher got held up outside her temporary penthouse apartment in the Barbizon Plaza in June—the New York tabloids added insult to injury. "Uzi thug mugs D. C. socialite," screamed the *Daily News*. "Bush aide's wife mugged," wrote the *New York Post*, referring to her husband, Robert, the Commerce Secretary. Only later did either story make clear that Mosbacher, 43, is also chief executive of La Prairie Inc., a maker of upscale skin care products. "Ju because I wear a dress they call me a socialite," grous Mosbacher. "I'm just like other CEOs."

True enough—if being like other CEOs means taking ste to build a company. Since she bought La Prairie in 1988, ret sales have doubled to an expected $120 million in 1990. W $80-an-ounce elixirs derived from black sheep placentas, Prairie had long enjoyed a following among ladies with am pocketbooks. But Mosbacher has expanded the offerings. S added colored makeup bases a year ago, launched Swiss Sl Care for troubled skin last December, and introduced a p fume, One Perfect Rose, at $350 a bottle in April. La Prai becomes a full cosmetics company with the launch of co cosmetics from rouge to lipstick to eye shadow this fall.

Mosbacher rose from humble circumstances, a fact s trumpets proudly in her résumé. The Indiana native work her way through Indiana University in Bloomington as a m el, clerk, and switchboard operator. She ran her own TV co mercial production company for a while and then moved Fabergé Inc., where she ran the licensing division for sev years. In 1988, three years after her marriage to Mosbach she and several investors bought La Prairie from Sanofi I

Mosbacher's sights are now focused on developing a 10-y plan, which calls for licensing spas and developing several n lines. But any products must meet the rigid standard reflec in Mosbacher's motto: "There's nothing they sell that wouldn't buy." Now, that's talking like a CEO.

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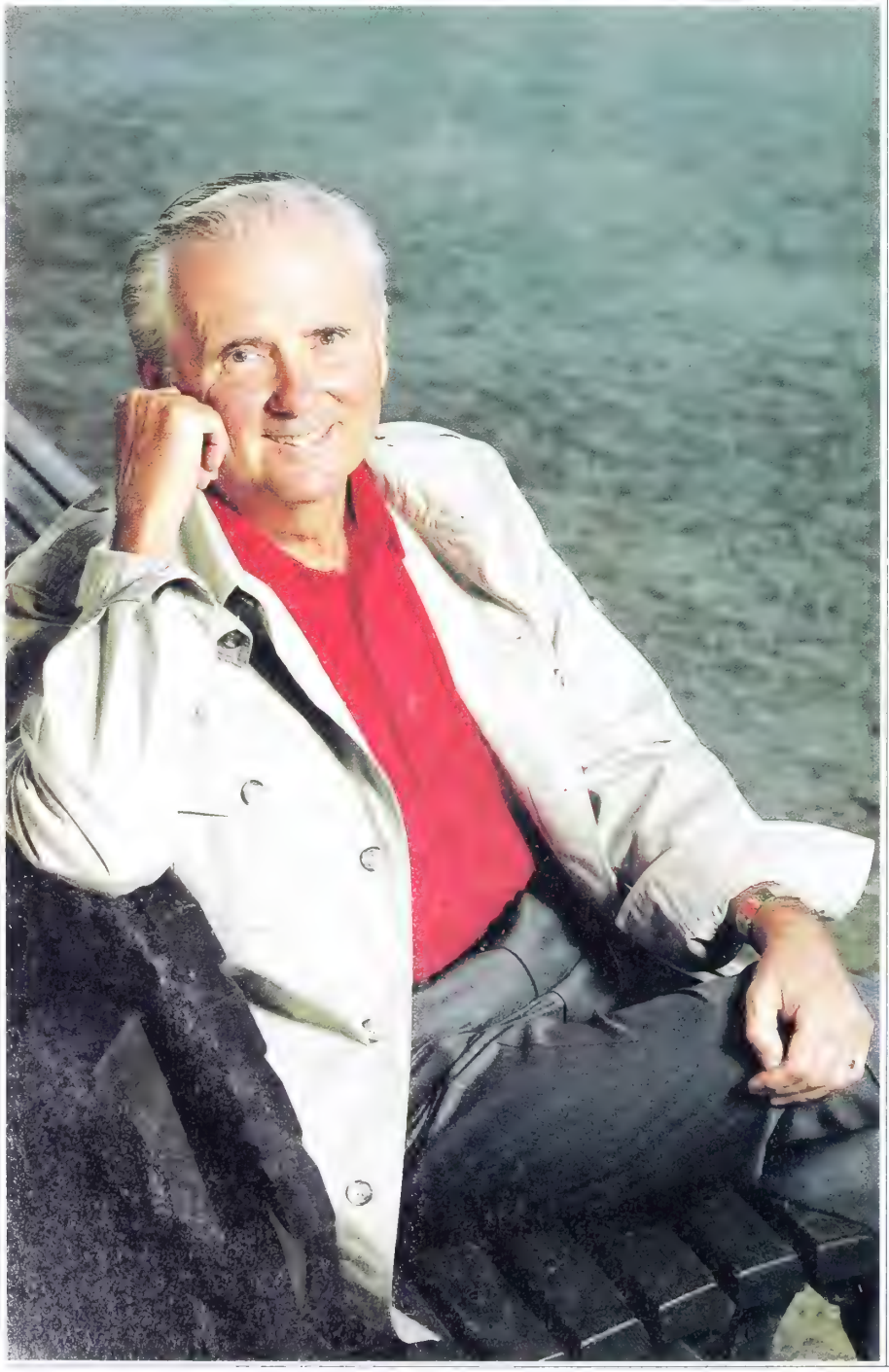
LOD COOK: MIXING OIL AND PR

Arco's shrewd chairman turns good publicity into big profits



It was nearly 4 a.m. when the ph rang in Lod Cook's room at the Sh Hotel in Seoul. The chairman of lantic Richfield Co. was in Korea en taining local politicians who had hel Arco build a massive chemical plant Ulsan. Now, his attention was direc to the Mideast and Washington. Pr dent Bush had just announced he sending troops into Saudi Arabia. H dled in a 49th-floor office at the A tower in Los Angeles, three of Coo top executives were calling the chie share their bright idea: freezing Ar prices. Arco's chairman quickly agre "There really wasn't much of a decis to make," Cook recalls. "We were do it for the country."

It didn't hurt Arco any, either. Wit three hours of the President's announ ment, Arco was proudly trumpeting price freeze. Although a handful of er oil companies later announced sim restraints, Arco got all the attention that night's network news. With pri as much as a dime per gallon lower t their nearest competitors, Arco's 1, stations were soon selling 20% more g oline than they had just a week bef But then they started running out gas—within two weeks, 167 stations to shut down their pumps—and freeze was called off. Prices have si edged up about 9¢ but are still 6¢ lo than most of the competition.

'ENLIGHTENED.' The showy price fre wasn't unusual for Arco. In his years as chairman, 62-year-old Lodw M. Cook has proved himself the m public-relations-conscious executive the oil business. Earlier this year, won approval from environmentalists backing Bush's 10-year ban on new d ing in virgin areas off California. To surprise of many, Cook headed fu raising efforts for a California gas hike to build roads and mass tra "It's one of the most enlightened con nies around," says Richard Golob, a sultant and publisher of *Golob's Oil lution Bulletin.*

Cook isn't just out to win a popula contest. Under his direction, Arco become the nation's strongest-perfo ing oil company—by a long shot. year, it earned $2 billion on revenue $16.8 billion for a spectacular 30% re on equity. Its nearest competitor Amerada Hess Corp., with an ROE about 19%. "Good deeds are wonderf says Cook, "but I like good numb even more." Wall Street agrees: S Cook became chairman in early 1 Arco shares have skyrocketed, fron to about 140, far outpacing its rival

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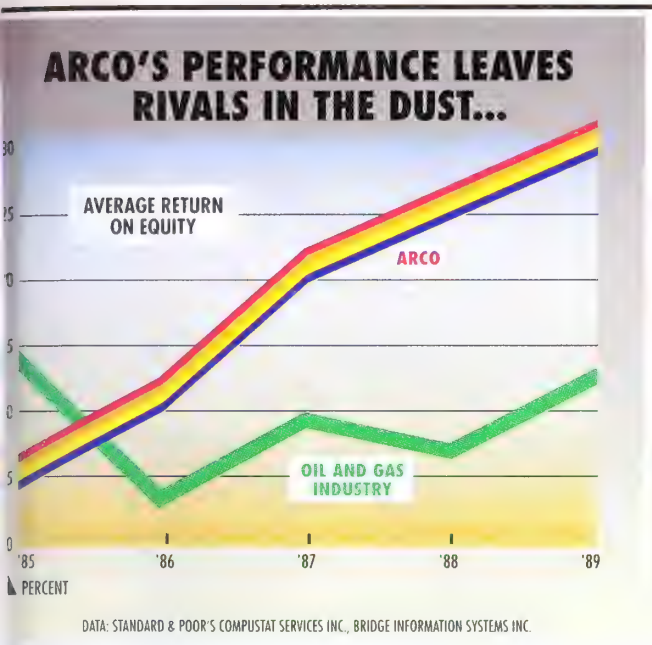
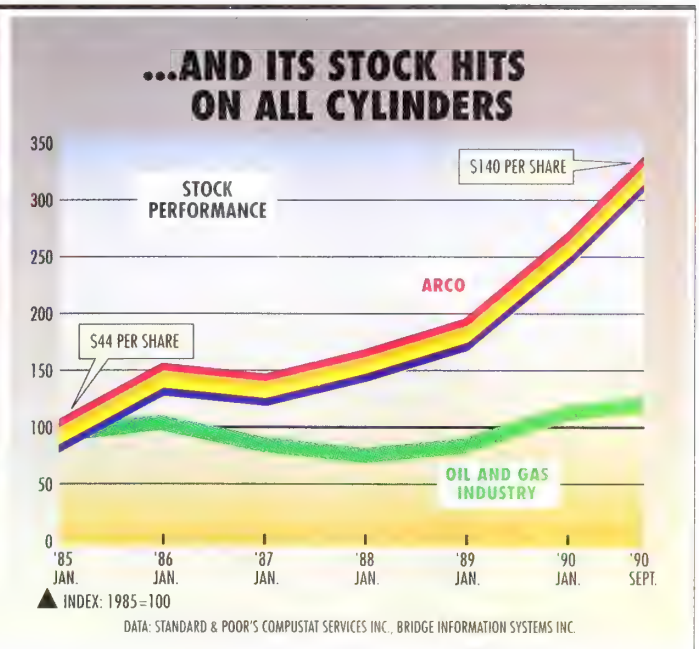


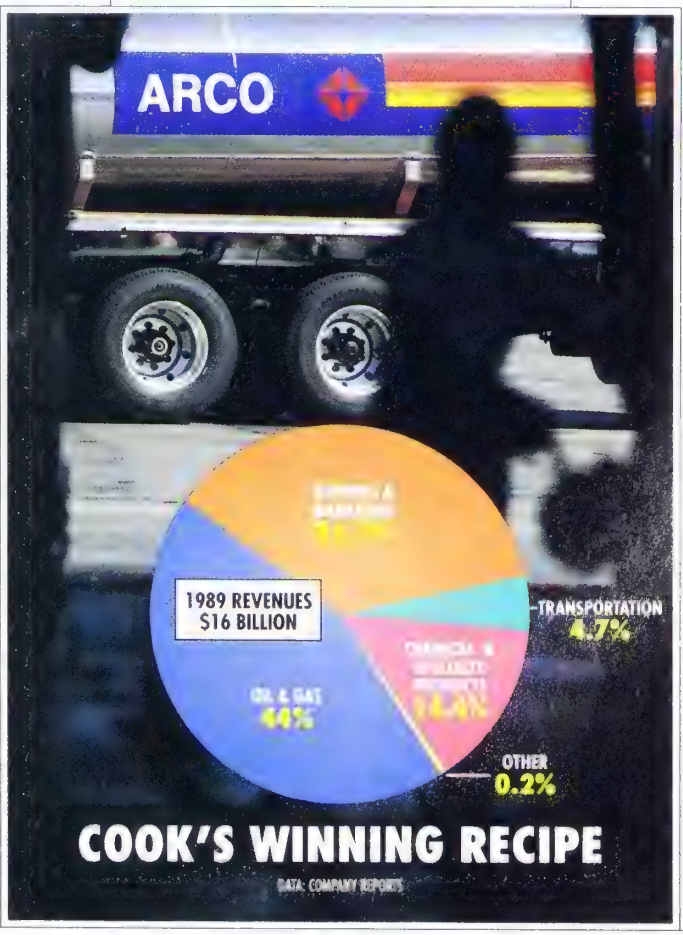


lustry. Even before the Iraq crisis, an ly spate of spills and growing alarm out the environment had again cast oil mpanies as the bad guys. Now, with ces in turmoil, oil companies need to even more careful not to anger poten- l customers and lawmakers. "Sooner later, they're going to have to operate the larger world," says David Roe, nior attorney at the Environmental fense Fund. "I'd put Exxon at the ier end of the spectrum om Arco]. The Valdez di- ter illustrates that Exxon rally didn't know how to ch out and deal with the oblem."

Arco has long operated out- e the tightly knit circle of ven Sister oil giants. Its co Foundation was a pio- r in charitable activities, n cultivating some envi- mental groups in the '60s l '70s. Robert O. Anderson, former Texas wildcatter o built Arco through merg- , encouraged his execu- s to be entrepreneurial e-thinkers—not buttoned- m bureaucrats. But Cook taken Arco's iconoclastic ge to new heights. "Lod, l, he's just a different kind fella than those other oil panies are used to dealing ," says Anderson, now 73. With the unmistakable wl of his native Louisiana, Cook can be the epitome he unpretentious good ol' . After one recent black-tie ir, Cook, his wife Carole, singer Dinah Shore sped in a limousine in search of my's, a local dive known for its greasy hamburgers. "He was just wolfing them down in his tuxedo," recalls Shore.

But beneath the homespun veneer and self-deprecating humor is a mover and shaker of the first order. A major Republican fund-raiser, Cook has a monthly golf game with Ronald Reagan and once danced the night away at a New Year's Eve party with Nancy. Last summer, he and Bush showed up at a California Angels ball game together. And when Commerce Secretary Robert A. Mosbacher was lining up business leaders to visit Moscow in early September, Cook was at the head of the list.

Cook's work on the clean-air front shows just how shrewd he can be. When the Bush Administration unveiled its clean-air package in the summer of 1989, one of its provisions required that alternatives to gasoline, such as methanol, be offered in the nation's smoggiest cities. Just after Bush's plans were announced, Arco struck, rolling out EC-1, a reduced-emission leaded gasoline. Breaking ranks with other oil companies, which staunchly opposed the idea of alternative fuels, Arco's lobbyists persuaded legislators to include reformulated gas in the Clean Air Act as a "clean" fuel.



'DOWN THE TUBES.' Some argue that introducing the reformulated gas was just a smoke screen. Says Sierra Club clean-air lobbyist Daniel Weiss: "There's no question in my mind that Arco introduced it to help forestall a [much tougher] alternative-fuels bill." Cook denies playing games. "We had the solution that could help now rather than wait for something down the road," he says. "We didn't see why we had to throw all of our good work down the tubes."

Arco's tactic certainly saved it a bundle of money in the short term. Its reformulated gasoline—basically regular gasoline with the ben-

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zene and other pollutants removed—cost less than $5 million to develop. A methanol-based fuel would have required upgrading refineries and distribution systems, and could have cost billions, says Cook. The new fuel "was a small technical fix that got a genuinely large amount of attention," says the Defense Fund's Roe. "That was not biting the bullet. That was biting the BB."

Cook's attention-grabbing price freeze was also less than altruistic. For one thing, it lasted only two weeks. Furthermore, Arco doesn't even get its oil from the Mideast. Its supply comes largely from Alaska, where it owns roughly 21% of the giant Prudhoe Bay field and nearly half of two smaller fields. So while other oil companies were facing likely surges in crude costs, Arco's expenses were far less susceptible to such spikes. Still, Arco argues that when world oil prices go up, it has to match them as part of a royalty agreement with the state of Alaska. Besides, in a free market, prices tend to rise to match the cost of supplies at the margin. But Deutsche Bank analyst George T. Friesen says Arco's Alaskan resources still give it as much as a $3.36-a-barrel advantage over companies that have to go to the open market for supply. That can translate into nearly 8¢ a gallon at the pump.

MANY ARCO STATIONS ARE NOW MINIMARKETS, WHERE SALES OF HAMBURGERS AND SODAS CAN OFFSET DIPS IN GAS MARGINS

Before he joined Arco, Lod Cook's closest encounters with the oil business were the few exploratory wells drilled near his grandfather's hotel in Grand Cane, La. His family also ran a general store in the dusty bayou town, and after school, Cook would hitch up a Shetland pony to a small wagon to deliver groceries. He went on to Louisiana State University and a three-year tour as an Army officer on the German-Czechoslovakian border before starting at Arco in 1956. Trained as an engineer, the outgoing new employee began by recruiting on college campuses and moved up to become head of the company's labor-relations unit. "He was the kind of guy that labor liked to talk to," recalls former Arco President William F. Kieschnick. "He wouldn't mind having a few beers with the guys."

'LIQUIDATOR.' In 1970, Cook was sent to Los Angeles to head Arco's then-struggling West Coast refining and marketing operation. At the time, Alaskan oil had only recently been discovered. Cook's job was to find customers for its new Cherry Point (Wash.) refine which would handle North Slope cr Before long, Cook became the co ny's top troubleshooter, and in 1 Arco installed him as its representa on the eight-company committee was building the 800-mile-long Ala pipeline. An expert conciliator, C soon became chairman of the commit

In 1984, he became Arco's "chief li dator," as he puts it. Fearing a take after four years of stagnant earni Anderson instructed then-Execu Vice-President Cook to slim down company. Cook sold off the mine unit and unloaded all 1,100 service tions east of the Rockies, focusing company on the fast-growing W Coast. He also dumped its Philadel refinery and slashed 12,000 people, n ly a third of its payroll. Anderson warded Cook by nominating him t chairman in late 1985. "Lod C showed he was a guy who could things done without causing the fu fly," Anderson explains.

By then, Arco had streamlined West Coast operations, making it th industry's most efficient. Costly cr card operations were eliminated, cut 3¢ from each gallon sold. And the pany had begun replacing its full-se stations with less expensive self-se outlets. To increase traffic, many

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converted to am/pm minimarkets. The larger margins on hamburgers and soft drinks help keep profits up despite low margins for gasoline. The typical Arco station today sells 225,000 gallons a month, triple the industry average.

Cook keeps fanning his success with carefully chosen public-relations moves. While Anderson was a patron of the arts, Cook sold off dozens of art works Anderson had bought, along with some of Arco's private airplanes. Instead, Cook started putting money into community groups. He donated $1 million to the construction of Plaza de la Raza, a cultural center for Hispanics living in inner-city Los Angeles. The Arco Foundation gave $345,000 toward the $4 million cost of making *Stand and Deliver*, an inspirational movie about math teacher Jamie Escalante. Cook visits Escalante's East Los Angeles school yearly. Cook's message is "math can get you a good job, help you make it in the world," Escalante says. "Plus, he's a funny guy, and people take to him."

SLICK PERFORMER. One of Cook's funniest moments came at two o'clock one morning in January, 1987, not long after Los Angeles' large central library had burned down. Arco had already given more than $1 million toward rebuilding the library and had turned over the 35th floor of its headquarters to the library staff. But that wasn't enough for Cook. During a late-night telethon to raise more money, he outdid himself. Sporting a Stetson and peering from behind dark glasses, the Arco chairman shimmied to the strains of "Just a Gigolo." The performance hardly surprised his fellow workers. For years, Cook and his wife have arranged dancing outings with other top Arco executives. "He does a mean jitterbug," recalls Kieschnick. "At Arco, we used to say you couldn't get beyond vice-president unless you knew how to dance."

These days, Cook does most of his dancing at political fund-raisers. Along with Southern California Edison Chairman Howard P. Allen, Irvine land developer Donald Bren, and others, Cook helped both Ronald Reagan and George Bush raise millions of dollars. In 1988 alone, the group is said to have brought in more than $20 million for the GOP. When it comes to the company's money, he's wisely bipartisan. According to the Center for Responsive Politics, Arco was second only to Amoco Corp. among the oil companies in donations to political action committees during the last election cycle. Arco contributed $296,748 to House and Senate candidates, of which $168,940 went to Republicans and $127,808 went to Democrats.

And in the interest of protecting Arco's North Sea holdings, Cook makes the rounds with British royalty and government leaders. Last fall, he recruited more than 100 CEOs to meet with Prince Charles in Charleston, S. C., to discuss social responsibility and corporate good deeds. He then accompanied the Prince on a trip to Hungary, for talks about bringing Western businesses to the Communist country. This December, Cook will host an annual Arco dinner in London. The guests are to include Prime Minister Margaret Thatcher and several top Cabinet officials.

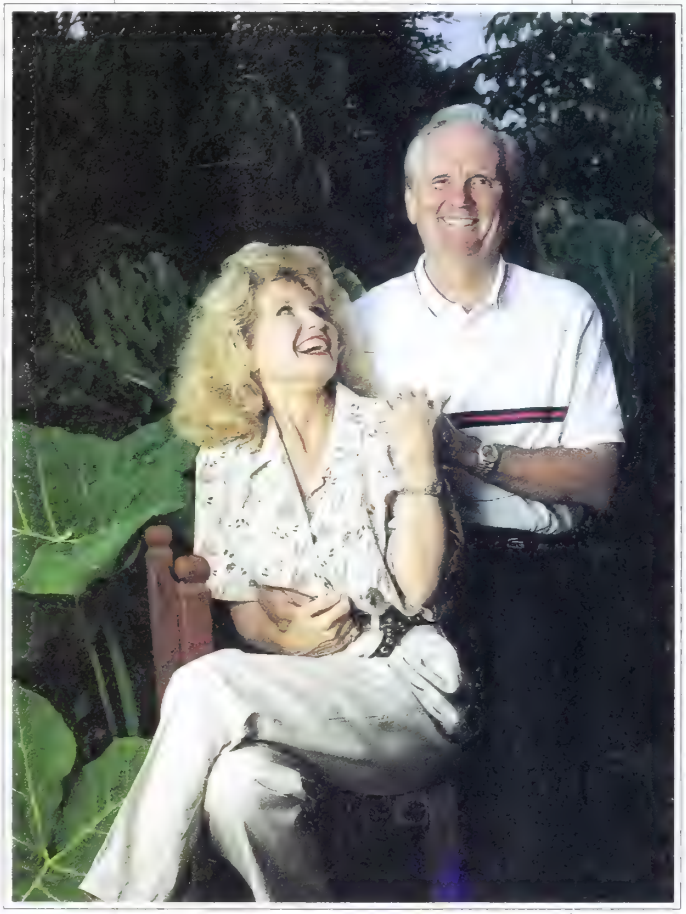
The direct results of Cook's glad-handing are hard to determine. But with C gress pushing for rigid controls on h reformulated gas is made and sold, Bush Administration is currently sid with Arco and other oil companies t are trying to scale back the propos And Britain could have raised a fus but didn't—in 1988, when Arco bou Tricentrol PLC, a British oil comp with substantial oil and natural-gas serves in the North Sea.

Cook's political skills r be in for a big test in months ahead. Production Alaska will decline during next two decades. To gr Arco needs new oil sour One possibility is land wit the Arctic Natural Wild Refuge. Bush supports notion, but Congress so fa resisting that idea. At a sr fund-raising breakfast w Bush in September, Cook s he and the President cussed strategy for chang congressional minds.

CLEANER FUEL. It isn't first time that Arco's envi mental image has clas with its drilling ambitions 1987, California regulat blocked Arco from drilling the coast in an area that h an estimated 100 million rels of crude. The comp responded to that rare reg tory defeat by suing Cali nia for the $800 million it already spent to develop state-controlled field. case is pending, but Arco cials say that harsh treatm prompted them to supp Bush's ban on all off-sh leasing, perhaps on the pr ple that if they can't drill off the coa slope, neither should anyone else.

In the meantime, Cook is mo ahead with plans to begin producin lower-emission regular unleaded g line to complement the leaded EC-1 a new premium unleaded version in duced in early September. The new will cost more than $2 billion to devo the company estimates, because of extra equipment and chemicals requ And it still may take some fancy work to get smog-hunting Califo regulators to accept it over cle methanol fuels. But considering hi cord at sidestepping adversity, don surprised if Arco's dancing chair kicks up his heels in the end.

By Ronald Grover in Los Angeles, Vicky Cahan in Washington, Peter in New York, and Mark Maremon London



COOK AND WIFE, CAROLE, OFTEN ARRANGE DANCE OUTINGS FOR TOP ARCO EXECS. 'HE DOES A MEAN JITTERBUG,' SAYS ONE

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ALAN GREENSPAN BETS ALL THE MARBLES

He's staking his job on a belief that inflation, not a downturn, remains enemy No. 1

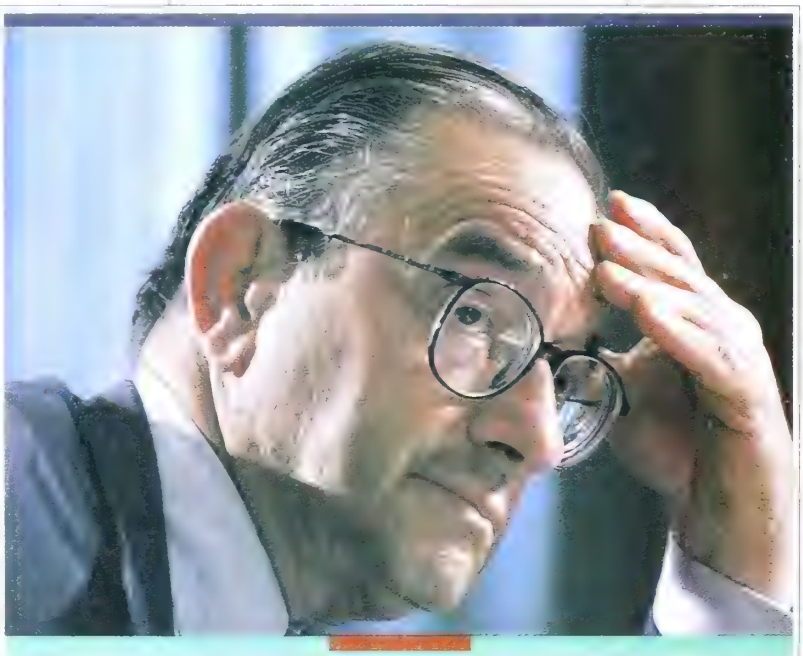
Working his way through the crowd in the grand foyer of the Federal Reserve's marble headquarters, Alan Greenspan hardly looked like a man beset with troubles. The occasion that Sunday evening in late September was a swanky international reception honoring former Fed Vice-Chairman Manuel H. Johnson Jr., and Chairman Greenspan was plainly the top star on a star-spangled guest list. The Fed chief was in his element, swapping greetings, quips, and bits of global analysis with heavy hitters of government and finance from Europe, Japan, and the U. S.

Even after three years of stock-market swoons, brokerage collapses, the savings and loan debacle, and an economy edging toward the brink, Greenspan tells friends that he's "having a ball" at the helm of the nation's central bank. A bred-in-the-bone economist, he revels in the unparalleled access to information that comes with the job. And he has found soulmates among the Fed's top officials to help him carry out his lifelong goal of driving inflation out of the U. S. economy.

FED-BASHING. Now, with just 10 months to go on his term as chairman, Greenspan is betting his chances of reappointment to the job on his belief that inflation—and not slow growth—remains the Fed's No. 1 enemy. Despite warnings of a slump from almost every economic indicator, Greenspan and his "inflation hawk" allies maintain that the economy hasn't tumbled into recession and probably won't. Most Fed policymakers believe that the central bank can't afford to ease at a time when surging oil prices are threatening to feed a new inflation spiral.

The Fed got a ringing endorsement of that view from America's economic partners on Sept. 22, when the Group of Seven industrial nations vowed not to respond to expensive oil with looser money. But in Washington, Greenspan has few allies. Treasury Secretary Nicholas F. Brady maintains that the G-7 pledge doesn't change his view that the Fed should cut interest rates immediately. And an increasingly agitated Bush White House charges that the Fed is running a needless risk by failing to cut interest rates now. "The longer the Fed waits [to ease]," warns an Administration official, "the more likely it is the economy will bear the brunt."

Both at the Fed and in the Administration, officials say the impending end of Greenspan's term next August isn't a factor in the mounting tension. "It's on the calendar," says a Treasury o cial. But the White House may s send a signal of what it intends to do its selection of a replacement for Vice-Chairman Johnson. Current Council of Economic Advisers mem John B. Taylor tops the White Hous short list for the vice-chairmanship, CEA Chairman Michael J. Boskin co be the choice if the Administrat wants to select a clear heir apparent Greenspan. The F bashing that beg even before Presid Bush was inaugura and has continued s radically ever si leaves little doubt t Greenspan could for an economic do turn with his "Greenspan is o knife edge at point," says a W House economist. " he put himself there

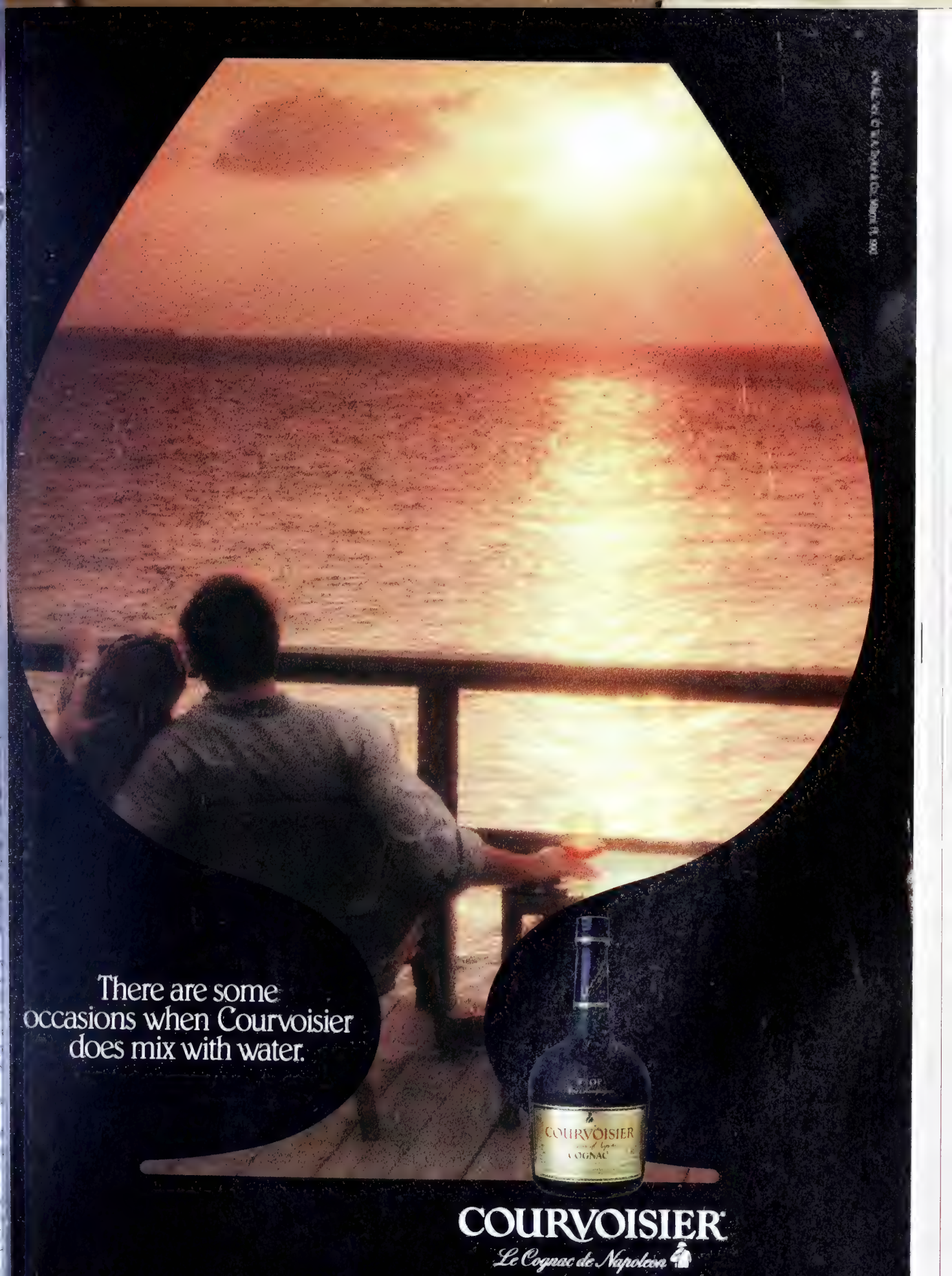


So far, the economy is in 'more of a rolling readjustment' than a downward spiral

ALAN GREENSPAN
Chairman, Federal Reserve Board

PRIME THREAT. Aug. 2, the Fed ch man was feeling fa comfortable in that carious position. T the Fed's three-y campaign to bring d inflation hadn't showed solid resu Although econo growth was slowin a crawl, price inde continued to increas a disturbing 5% But the Fed's anal projected that the e omy was still in the cess of a vaunted " landing." The slowdown would end 1991 without a recession, Greensp economists argued, and wages were ginning to soften. The Fed cut the i est rate on federal funds—overn loans of bank reserves—from 8¼ 8% in mid-July, and it was poised t rates further as the economy slowe

Then Iraq seized Kuwait. The su spurt in oil prices threatened the


There are some occasions when Courvoisier does mix with water.
COURVOISIER
COGNAC
COURVOISIER
Le Cognac de Napoleon

economy with slower growth and higher inflation at the same time. At first, the Fed played for time, leaving policy unchanged. Greenspan and his colleagues hoped that the confrontation between the U. S. and Iraq would be resolved quickly and that oil prices would fall as fast as they had risen. But as crisis turned into a prolonged standoff, the Fed ran out of wiggle room. The central bank could no longer delay a choice between risking dangerous inflation in a bid to head off the increasingly likely recession, or standing firm against price hikes at whatever cost to the economy.

These days, Greenspan's Fed is facing an array of problems, from a plunging dollar to a fragile banking system (charts). By most measures, the immediate danger is recession. On Sept. 25, the Commerce Dept. reduced its estimates of second-quarter growth of gross national product from an already anemic annual rate of 1.2% to 0.4%. Business was almost dead in the water even before the oil-price shock, which most economists think will knock a percentage point off GNP growth over the next 12 months.

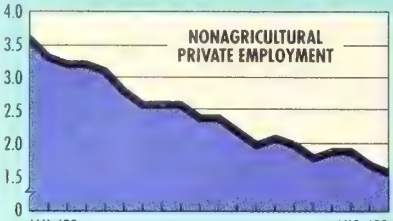
Now, forecasters have trouble seeing anything on the horizon to lift the economy. Housing starts this summer fell to their lowest level since the 1981-82 recession, and construction spending will slide in the months ahead. Consumers' first reaction to the oil shock was to shut their wallets: Adjusted for inflation, retail sales fell at a 15% annual rate in August. Nor did consumer confidence bounce back in September: The Conference Board's confidence index remained stuck at 84.7, the lowest level since the 1982 recession. Employment in manufacturing is continuing to fall. "Based just on the numbers so far, the economy is going to shrink in the third quarter—and probably in the fourth and first [of next year]," says H. Erich Heinemann, chief economist at Ladenburg, Thalmann & Co.

'ROLLING READJUSTMENT.' Fed economists, though, don't see output shrinking—at least not yet. Initial claims for unemployment insurance, for instance, are high—around 382,000 a week—but stuck on a plateau, not skyrocketing. Industrial production, as measured by the BUSINESS WEEK production index, has risen for four consecutive weeks. Auto sales through mid-September remained at a relatively strong 7.4 million-unit annual pace, defying the gloom that consumers report in surveys.

More important, the Fed doesn't see signs that the economy's slowdown is feeding on itself. Greenspan startled Congress' Joint Economic Committee on Sept. 19, when he said that a "recession" as defined by the standard rule of thumb—six months or more of declining gross national product—might not prompt a vigorous response from the Fed. A shallow downturn in measured GNP "can very readily be revised away" when government statistics are updated, he said. Instead, the Fed would be looking for signals that the economy is

A PASSEL OF PROBLEMS FOR GREENSPAN'S FED

EMPLOYMENT GAINS ARE SHRINKING...

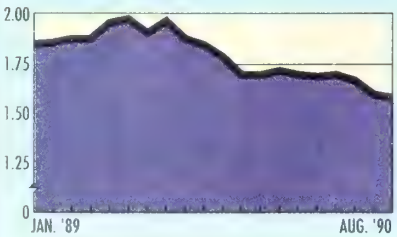


▲ PERCENT CHANGE, YEAR OVER YEAR

...CORE INFLATION IS ON THE RISE...

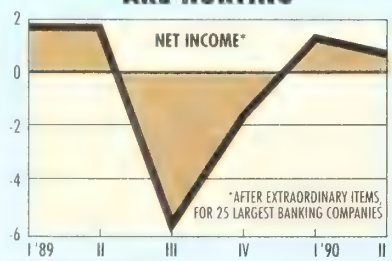
▲ PERCENT CHANGE, YEAR OVER YEAR

...THE DOLLAR IS TANKING...



▲ DEUTSCHEMARKS TO THE DOLLAR

...AND THE BANKS ARE HURTING



▲ BILLIONS OF DOLLARS

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"deteriorating in a cumulating proce

The distinction isn't just academic a classic recession, the economy g into a tailspin. Tight credit and ris prices squeeze consumers, who spending. That causes businesses to cel investment plans and lay off w ers. Incomes and consumer spend drop even further.

Easier money and lower interest ra can break such a spiral, buoying co dence and creating the buying oppo nities that start the process of recov But so far, today's economy is in "m of a rolling readjustment" than a do ward spiral, Greenspan told Congress that's the case, money injected into economy now would more likely s inflation than real growth.

'IN A BOX.' The spike in oil prices, in Fed's view, only bolsters the argum for holding firm. "In the short there's nothing we can do with mone make up for that loss of oil," says E ton Fed President Richard F. Sy Easier money could cushion the blow lost spending and job cuts. But would carry the risk of "providing financing to build the high oil price wages and inflation," says Richm Fed President Robert P. Black. And central bank would only have to cr down on inflation harder later on. Fa with that choice, the Fed majority w rather see the economy slow down

Of course, the Fed doesn't have a hand. Since the Kuwait invasion, wit sign of any change in monetary po markets have pushed long-term yields from 8.45% to 9.13%, on tal war, fear of inflation, and general un tainty. Despite higher U. S. rates an traditional role as a safe haven in a of anxiety, the dollar has fallen sha "The financial markets remember and 1979, when the Fed tried to o oil spikes with looser money," says J L. Jordan, chief economist at First I state Bank in Los Angeles.

This time, the industrialized wor determined to avoid the mistakes o 1970s. Interest rates are rising in rope, where German unification is s ing up capital. And in Japan, hi rates have already prompted Japa investors to sharply cut back purch of U. S. securities. "You can unders why the money is returning to Ja says Kiichiro Ito, president of T Bank Ltd. With money tightening w wide, the U. S. risks becoming the tom borrower in the pecking order. a Fed cut in short-term interest could easily set off a dollar rout, foreign investors, and push up long interest rates. "Greenspan is in a says David Wyss of DRI/McGraw H

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ng a quick end to the Mideast crisis
d a return to $20 oil—not very likely
this point—Greenspan's main hope is
at Congress and the Bush Administra-
on will manage to cut the federal bud-
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AYING WITH FIRE. The
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◀ Taylor tops the White House's short list to become Fed vice-chairman

▶ But Boskin could be the choice if Bush wants a clear heir apparent to Greenspan

livering enough money to the economy.

More important, White House economists scoff at fears of oil-fueled inflation. For political reasons, the Administration can't predict a recession—but CEA Chairman Boskin has come as close as he dares. He has cut the Administration's internal-growth forecasts to around 1.1% this year and only 1.9% for 1991. With the economy so weak, it won't be easy for businesses and workers to drive prices or wages higher as oil costs continue to rise. The risk of oil-induced inflation getting embedded in wages is "minor at best," says a White House aide.

The inflation-wary central bank doesn't see it that way—but even the Fed's hawks realize they're playing with fire. If the economy is indeed tumbling, the Fed has staked itself in a very uncomfortable position, tied to the volatile Middle East crisis and Washington's uncertain budget politics. If there's little progress on those fronts, the Fed's stance won't let it ease until recession is almost here. That could turn the short, shallow contraction many expect into a longer, deeper downturn.

Throughout his professional life, Greenspan has bet his livelihood on the quality of his economic forecasts. These days he's putting a lot more on the line. If Greenspan loses his gamble, he'll be out of a job—but far worse, so will a lot of other people.

By Mike McNamee, with Douglas A. Harbrecht and William Glasgall in Washington

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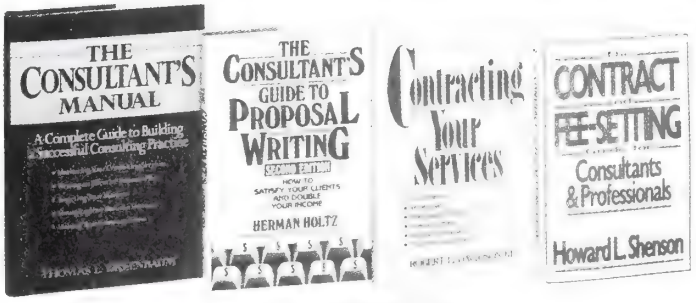

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THE ADMINISTRATION

THE CROWD STOPS ROARING FOR JACK KEMP

Sure he's cleaned up HUD, say critics, but he's left it comatose

AT A WASHINGTON HOUSING PROJECT: TOO MANY PHOTO OPS, TOO LITTLE ACTION?

When Jack F. Kemp took the helm of the Housing & Urban Development Dept. 19 months ago, it seemed he could do no wrong. Conservatives lauded the former Buffalo congressman's vow to use supply-side incentives to solve the nation's housing woes. Liberals were impressed by Kemp's moves to contain the influence-peddling scandal linked to his predecessor, Samuel R. Pierce Jr.

Now the cheering has stopped. And Kemp is finding himself in an unusual position: He's playing defense, trying to convince a growing group of skeptics that the cash-short Bush Administration can solve decades of housing neglect with novel ideas and good intentions.

Ironically, some of the harshest criticism stems from the emergency measures Kemp took to respond to Pierce-era scandals. He shut down questionable HUD programs and threw the brakes on others. With Kemp aides scrutinizing agency commitments closely, community activists and developers alike grouse that HUD may be clean—but comatose. "The agency has become totally paralyzed," says Arthur R. Hessel, a HUD official under President Nixon.

Kemp has also been hurt by the exodus of a half-dozen top aides. Some left for better jobs, others because they chafed under a management system that concentrates power in the hands of a few Kemp loyalists. The biggest loss: The August departure of Assistant Secretary C. Austin Fitts, a savvy former investment banker who insiders say was frozen out of policy decisions.

Though he considers himself a hands-on manager, agency watchers say that Kemp, who still harbors Presidential ambitions, isn't around enough for such a system to work. He stumps often for GOP candidates and stages highly publicized tours of housing projects.

Kemp has become defensive as the criticism has swelled. He blasts those who want business as usual, declaring that "the biggest problem any reformer has—from Gorbachev to Yeltsin to Kemp—is inertia." He adds that the agency's slowdown is deliberate. "Before, everything sailed through here on gossamer wings. Now," says Kemp, "we hold things accountable . . . And we're not paralyzed. That's a cheap shot."

During the Pierce days, HUD was a feeding trough for politically connected consultants and developers, who rea millions of dollars from sweetheart tracts. "This place was almost an arm the Republican National Committe Kemp notes. "We would have been ju fied in shutting it down for two yea

Kemp didn't do that, but instead celed one loss-plagued mortgage-in ance program and suspended two ers. He also won from Congress lir on discretionary spending that had b a source of particular abuse.

Kemp insists the new scrutiny paid off. He cites his decision to de for nine months an $8.5 million ten buyout of a low-income Chicago ap ment house. During the delay, prefe tial tax credits lapsed. The result: developers' profit, which Kemp felt excessive, dropped by $1 million.

SHOPWORN IDEAS? Despite the clea campaign, HUD's woes are far fr over. As the real estate market cr bles, some of the agency's biggest grams are hemorrhaging. The Fed Housing Administration's single-fa mortgage fund could be insolvent by end of the decade. And on Sept. 18, Inspector General Paul A. Adams Congress that another agency unit, Government National Mortgage As has seen defaults rise from $3.5 billio fiscal 1988 to $12.5 billion in fiscal 1

Such travails—and Kemp's trave leave him little time to push his conservative agenda. When he took fice, he pledged measures to pro tenant management and ownershi housing projects and promised tax "enterprise zones" to encourage d opment in blighted cities. But so fa has ended troubled programs withou placing them. His lofty plans are pa a housing bill that is tied up in Cong in a squabble over revamping the Some lawmakers feel Kemp's pla force home buyers to pay closing on FHA loans would shut out many time buyers. Kemp insists the paym would give owners a bigger stak their homes, reducing defaults.

Passage of the housing bill would coup for Kemp. So would his expe appointment as coordinator of a free-market assault on poverty. Bu eral activists suspect Kemp will be siding over a repackaging of shop- Bush ideas—without new funds.

Lack of money will also undermi housing schemes: Fiscal constraints limit his ability to win tax breaks f programs. So far, Kemp has defl criticism by blaming HUD's problem the old regime. But HUD's trouble fast becoming his own.

By Dean Foust and Peter Ho Washington

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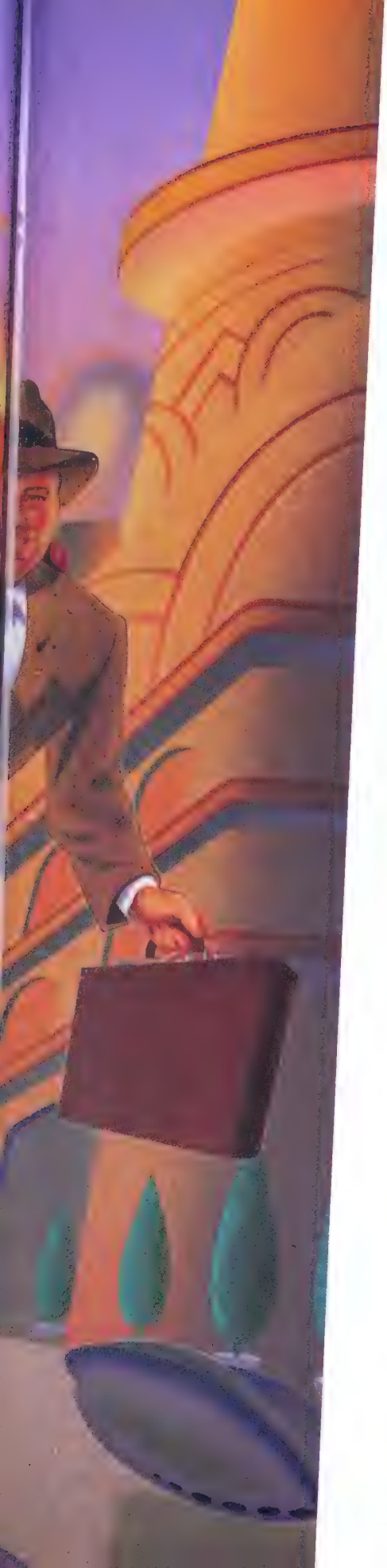
THE FUTURE: CAN WE REALLY GET THERE FROM HERE?



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EVEN THE REICHMANNS ARE FEELING THE PINCH

Some cracks in the monolith have the family seeking partners and concentrating more on real est

For Canada's secretive Reichmann family, whose finances are as closely guarded as nuclear launch codes, deciding to sell a 20% stake in their vast U. S. real estate portfolio is astounding. The three Reichmann brothers are looking for a few large institutional investors willing to pay $600 million to $800 million—and participate in their tight circle. As a result, officers from a number of large insurers and pension funds have reviewed offering documents that detail the Reichmann empire's inner workings.

It has been six months, and no serious bidder has emerged. But officials at Olympia & York Developments Ltd., the holding company for the Reichmanns' interests, reject any suggestion that the delay signals a problem finding a buyer. A top O&Y executive, who declines to be identified, has told BUSINESS WEEK that "a deal of this complexity is not just snapped up. It takes time to analyze." While many in the investment community see the bid to enlist outsiders as a sign of desperation, the executive says the family isn't hard up for cash. So if the offers aren't right, he says, the whole idea will be dropped.

SUBTLE SHIFT. What then are they up to? Interviews with O&Y executives and real estate experts familiar with the family yield a picture of a subtle strategic shift under way. The new institutional partners would do three things for O&Y: help smoothe the transfer of power to the next generation of Reichmanns, signal that O&Y is deleveraging, and show that while the rest of the investment community wants to reduce its real estate holdings, the Reichmanns intend to concentrate even more on what they know best.

You can see why others are worried about the Reichmanns' fortunes: A lot of cracks are appearing on the O&Y monolith. The U. S. office market is in the doldrums, especially in Manhattan, where the average office vacancy rate runs an unhealthy 14.5% and O&Y has a large exposure: Of its 25 U. S. buildings, 12 are there. The big problem is the headquarters of defunct Drexel Burnham Lambert Inc., which suffers from a 69% vacancy. Says Lloyd Lynford, president of REIS Reports Inc., a consul firm: "They're going to have a hard renting this out." Elsewhere, in ments from papermaking to energy duction are limping. The prospects the Reichmanns' mammoth Ca Wharf project in London are iffy. the company was forced to take a able write-off from last year's earn because of its disastrous $250 mi loan to Campeau Corp., the C dian retailer now in Chapter

CANARY WHARF: ADDING TO A GLUTTED LONDON MARKET

Still, one expert who has the offering documents says flow is down but remains rol Despite weaknesses, O&Y c such U. S. gems as New Y World Financial Center, hom huge tenants Merrill Lynch & and American Express Co. Va cy rate: 1%. If the Reichm really needed quick mone would be easier to sell indiv prizes such as the financial ce not a slice of a diversified pc lio. "I can't believe the R manns aren't as solid as the of Gibraltar," says New Yor veloper Lewis Rudin.

'OTHER VOICES.' The Reichr brothers—Paul, 60, Albert, 61, Ralph, 57—are concerned about the cession process. The one-fifth stak the block is now held by a web of lir partnerships composed mostly of brothers' children; O&Y controls the er 80%. The 14 children range in from their teens to their early 30s, the older ones increasingly involv

WHERE OLYMPIA & YORK HAS HEADACHES

ABITIBI-PRICE
The world's largest producer of newsprint, 85% owned by Olympia & York, has hit an earnings slump because newsprint prices are down. It's also hurt by a strike at 7 of its 11 mills

CAMPEAU
O&Y's $250 million loan to Robert Campeau's retailing empire wasn't enough to keep it out of Chapter 11. One plus: The loan is secured by eight Campeau office towers

CANARY WHARF
Leasing has slowed at huge London office project, part of downturn in office market. Ad giant Saatchi & Saatchi has scratched plans to move there

DREXEL BUILDING
One of O&Y's few losers among operating buildings, lower Manhattan office tower is 69% vacant because of Drexel Burnham Lambert bankruptcy filing

GULF CANADA
Oil company, 74% owned by O&Y, expe to report a loss for 19 even though oil prices are up. Reason: Comp ny is weighted toward reserves that won't p duce oil for years

DATA: BW

THE REICHMANNS' BIGGEST NEW YORK PROPERTIES

	Square feet Millions	Vacancy rate Percent
WORLD FINANCIAL CENTER	8.4	1%
55 WATER STREET	3.2	2
ONE LIBERTY PLAZA	2.2	8
1290 AVENUE OF THE AMERICAS	1.9	3
245 PARK AVENUE	1.6	0

DATA: OLYMPIA & YORK DEVELOPMENTS LTD.

PAUL REICHMANN: SUCCESSION WORRIES

business. Highest ranking is Albert's , Philip, a senior vice-president. And le no signs of family disharmony are lent, outside investors would, in the- bring a more dispassionate view to ı issues as management succession. will be good to have other voices at table," says the top executive.

echnically, the money raised from U. S. portfolio sale would go into the kets of the Reichmann children and r relatives who compose the limited nerships holding the 20% stake. But le close to the family say the money 't go to their individual investment yhorses—it will be recycled into r O&Y equity. The partnerships were ıp in January, 1987, to avoid new tax lities on foreign companies, such as , that owned 100% of a U. S. busi- . Selling the 20% to others keeps the protection in place.

ıen there is the deleveraging move. Reichmanns feel that debt is likely emain too expensive for some time, they want to hold down their inter- costs to cope with sluggish economic itions. The new partners would be ty players, and when the U. S. real te market turns around, the Reich- ns expect them to help raise addi- l equity capital for new projects. top O&Y executive says the Reich- ns' aim in the 1990s is to lower the ortion of debt on real estate to 50% alue from around 60% now. The hmanns also want to erase all long- debt from the books of their two r nonproperty subsidiaries, Gulf da Resources Ltd. (now 8.2% of cap- and newsprint producer Abitibi- Inc. (20%). To aid the effort, O&Y is selling Toronto's Consumers Gas Co. to British Gas Ltd. for $927 million.

In the face of various difficulties, the Reichmanns are devoting more attention to real estate development, the wellspring of their fortune. And the most pressing real estate priority is Canary Wharf, their $6.6 billion bet on a massive commercial development three miles from London's business center. Fueled by the wish that London be the financial heart of an economically integrated Europe, the Continent's biggest real estate project is rising on 71 acres of the rundown Docklands section along the Thames River. O&Y is looking for bank financing for the complex, a customary development around midpoint of a project. Michael Dennis, O&Y's London chief, insists that there is no link between the loan and the partial sale of the U. S. portfolio. But the money that would flow to the family through the U. S. deal would go into the equity base of O&Y, enhancing the credit standing of the company.

> 'I can't believe the Reichmanns aren't as solid as the Rock of Gibraltar,' says developer Lewis Rudin

How much more O&Y will have to invest in Canary Wharf is still unclear. The initial allure of Canary Wharf, due to open its first phase of 4.4 million square feet in 1991, was cheaper rents made possible by cheaper land in the out-of-the-way Docklands. Unfortunately, the London market, like New York's, is undergoing tough times, with a 14% vacancy rate in the City financial district. To attract and keep tenants, office rents in some City buildings have dropped 20% to 30% in the last year, whittling away the Canary Wharf price advantage. Canary Wharf does have large spaces able to handle computer cables and air-conditioning, which beats the cramped older buildings in the City. But it faces stiff competition from other modern office structures going up in central London—8 million square feet coming on line this year, with 17 million under construction. Because they are building so far from the City, O&Y is counting on getting a subway line built to the Docklands, which it plans to finance in part, although that question is still before Parliament.

SHAKY FUTURE? Canary Wharf's appeal for masses of future tenants remains iffy. No new tenants have signed on since July. O&Y's Dennis is optimistic, saying the complex's first phase is about 53% rented, and he expects that to rise to 75% to 80% by next summer. Maybe, but the recent pullout of prospective client Saatchi & Saatchi Co., the advertising giant, doesn't inspire confidence.

The Reichmanns are used to hearing gloom-and-doom talk about their ventures. When they took the radical step to build the World Financial Center during the recession of the early 1980s, many thought it would fail. But their canniness in looking beyond the moment prevailed. And their efforts to attract outside investors may prevail, too.

By Larry Light in New York, with Jeffrey M. Freedman in Toronto and Mark Maremont in London

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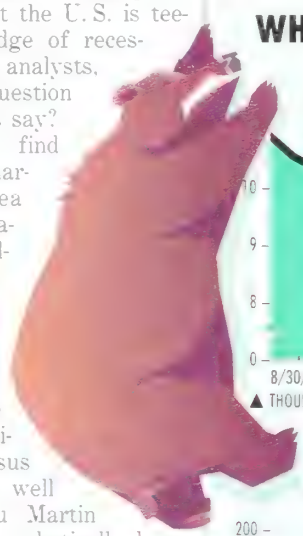
ANALYSTS ARE READING THEIR CHARTS—AND WEEPING

With virtually every major indicator pointing south, the market slump may stretch well into next y

Breakaway gaps. Exhaustion gaps. Climactic bottoms. No, this isn't the copy for a racy designer-label blue jeans ad. It's the kind of argot tossed around these days by stock market technicians, most of whom are doing so with a bearish growl. Those who dwell on market fundamentals may worry that Saddam Hussein is choking the world economy or that the U. S. is teetering on the knife-edge of recession. But for technical analysts, as always, the big question is: What do the charts say?

Unfortunately, few find solace in the stock market's statistical tea leaves. Common indicators, such as share volume, the number of advancing vs. declining stocks, and investor sentiment, all point south (charts). While there are a handful of technical bulls, the consensus sees the Dow eroding well into next year. Guru Martin Zweig is even more emphatically bearish. "Some people think stocks are cheap," he notes. "I think [those people] are on another planet."



DIM PICTURE. The bears are focusing on the preponderance of declining stocks vs. advancers. There are many ways to chart and analyze the indicators, but almost everyone doing so is drawing similar conclusions. Despite zigs and zags on the chart, the overall upward trend of the advance/decline line even withstood the 1987 crash. But the predominance of decliners since August, 1989, is establishing a new downward trend, according to Paul Kronlokken, an analyst at Piper, Jaffray & Hopwood Inc., a Minneapolis brokerage. Adds John A. Mendelson, a consultant for Credit Lyonnais Group: "Every other observation about the stock market is secondary" to the decline of the broad market indicators.

This dim picture is reinforced by the downward momentum of most stock groups. Only 5% of the industry sectors tracked by Piper stand above their 40-day moving average, says Kronlokken. That's the broadest downward momentum charted by Piper in 10 years, except after the 1987 crash, when no group exceeded its 40-day average. The few stock groups holding up well technically, Kronlokken says, include basic energy stocks, gold, large-capitalization health care, and utilities. After such broad-based declines, Kronlokken expect "reflex rally. But longer-term, we're negative, and would sell" during an tervening rallies.

Another dark cloud is investor s ment, a contrarian indicator. Perva pessimism has signaled three of the last bull markets. While the numbe bullish investors has fallen to 30% cording to *Investors Intelligence*, a Rochelle (N. Y.) publication, most lysts think things haven't gotten b enough to warrant an upturn. Says ert B. Ritter, an analyst at Ladenb Thallmann & Co: "You've got to ha significant period of negative attitu It can't be done in five weeks." A cently as July 27, half of investors still bullish.

The slackening of volume of late l ominous, too, according to Ritter. It nals that an upward trend isn't at h because you want all the bearish wrung out of the system on heavy ume. In this pessimistic environ the bond market also takes on mor portance as an indicator, he adds. Fed may decide to ease, taking pres off short-term rates, but until long- bond investors accept lower rat won't help the market. The rallyin the bond market was a big factor kicked off the 1982 bull market.

DON'T ASK. But the clincher for Ritt terms of labeling this a major bear ket, is bank stocks, which have dived 35% since June 1: "How ca market be healthy if banks are g down the tubes?" Sectors that look nically strong to Ritter in the face c downward gale include energy st drug companies, major agricultura ducers, and those making electronic defense, such as Loral.

So where's the bottom? You ma sorry you asked. Like Ritter, Mend is forecasting that in about six mo the Dow will fall an additional points, to 2200. But while Ritter t that will be the end of the down Mendelson believes the decline wi tend to 1700 over the longer terr that level, the dividend yield of s should be 6%, the point at whic bear market ended in 1974. Zweig looks to dividend yields for clues t

WHY THE TECHNICIANS ARE BEARISH

THE BROAD MARKET HAS BEEN DECLINING...

...TRADING VOLUME IS HAS SLUMPED...

...AND SENTIMENT, A CONTRARIAN INDICATOR, IS TOO UPBEAT

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eventual floor, and finds an even less comforting statistic: Before the bull found its legs in 1982, the yield was close to 7%. That would put the Dow at about 1444. If companies cut dividends, the erosion of stock prices could be even more severe.

Some, however, think the technical bears are blowing it. "If the market is as weak technically as some feel," argues Gene Seagle, director of technical research at Gruntal & Co., "I would think the market should be 400 or 500 points lower right now," given all the bad news it has been absorbing. His interpretation of the slowdown in volume is the opposite of the bears': "Those who want out are out. Those remaining have a stronger hand." One sign he sees of a bottomed-out market is that individual stocks aren't necessarily dragging down whole groups. For example, in September the price of Digital Equipment stock suffered, but IBM did well. To Seagle, that means the market is no longer "accommodating pessimism."

How low is low? Some see the Dow touching bottom at 2200 . . . or 1700 . . . or 1444

BETTER DAYS? Seagle says the volatility of program trading has distorted the traditional technical indicators. The drop-off after the 1987 crash "was the shortest bear market in history," followed by a strong upturn. Before options, program trading, and other such techniques, the bear market might have stretched over a year and a half, he says. Seagle likes stocks such as Blockbuster Entertainment, Glaxo Holdings, and Mattel to ride the coming rally.

Unlike most colleagues, Seagle is convinced that Aug. 23's 77-point drop marked a turn in the market. He calls that frenetic day, with the volume of decliners outpacing gainers by 20 to 1, the "classic climactic bottom day." It was preceded by an exhaustion gap and followed by a breakaway gap. At the opening bell of the big sell-off, prices were far below the levels of the previous close, creating a gap on the chart. Likewise, at the start of the breakaway day, stock prices were well above the closing levels of the previous day.

Zweig may believe that Seagle's views put him on another planet. But if Seagle is right, it won't be the first time a contrarian ended up as the top forecaster.

By David Zigas in New York

THAT GROWING RUMBLE MIGHT BE ENERGY STOCKS

They've been asleep, but even if prices drop, good plays aboun

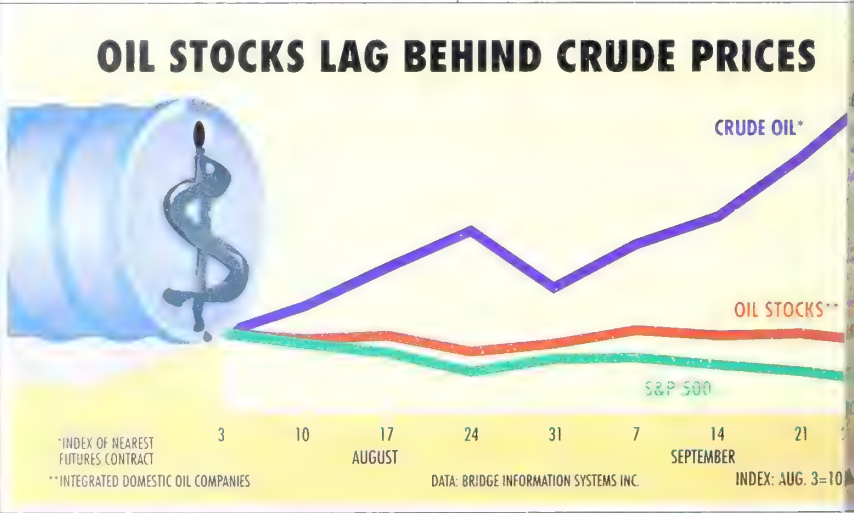
Every day, the headlines from the Persian Gulf grow more chilling and oil prices get hotter—rising toward $40 a barrel for the first time in nine years. The price spike has splashed cold water on the financial markets. Yet the stocks of most energy companies, though not joining the market tumble, have barely budged. The reason: "Everybody's expecting oil prices to crack," explains George J. Gaspar, an energy stock analyst at Robert W. Baird & Co. in Milwaukee.

But the outlook for energy stocks may be much more cheery than the market seems to realize—even if prices crack. A Middle East settlement, oil industry watchers agree, is unlikely to push oil prices much below $25 and certainly not to the precrisis level of $18. And that should boost the earnings of a wide spectrum of energy companies. Still, the major oil companies, including Chevron, Texaco, and Mobil, are selling at as little as 10 times projected 1991 earnings, and some of the smaller energy companies are trading at less than the estimated value of their assets. Other companies are appealing because of their "operating leverage." For every dollar increase in oil prices, First Boston Corp. oil analyst William L. Randol estimates, the earnings of Unocal Corp. are likely to gain 16%, with Amerada Hess Corp. gaining perhaps 18%.

For investors who are gazing a at the oil patch, seeking a way hedging against future price sho perhaps the best places to start are majors. Large, integrated oil and companies have the flexibility to m money at either the wellhead or gas pump—or both. Indeed, while ing oil prices boost production pro a dearth of refining capacity will supplies tight and prevent retail pr from falling.

SELF-SERVING. The wisest plays am major oil companies are those that produce enough to supply their service stations, are blessed sources of oil outside of the Mi East, and run sophisticated refine that can handle various crudes. At top of the list is Atlantic Richfield which hauls in cheap Alaskan crud serve all of its refinery needs in lucrative West Coast market (110). Salomon Brothers Inc. an

Bernard J. Picchi likes Arco for a er reason: It's a shrewd marketer price freeze won it ample free pu ty—and a gain in market share. majors to consider are Mobil, Ar and Exxon. All are expected to double-digit earnings increases year—barring a lasting and sever cline in oil prices. Texaco, too, m a good bet. But most of its crude plies, as part of a 50-50 joint ver now come from Saudi Arabia.



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could be the first destroyed in a war.

Oil stocks with petrochemical holdings, such as Phillips Petroleum Co. and Kerr-McGee Corp., also are appealing. Phillips, which gets 35% of its earnings from petrochemicals, has gained 8% this year, and now is trading at about $27. Nevertheless, it has some of the lowest finding costs worldwide and is looking forward to a major new production stream coming on line in the North Sea in three years. Gaspar estimates that if oil stays at $25 a barrel, Phillips' earnings should grow from $2.20 a share this year to $3.50 next year. That should sustain a share price of as much as $50. "Their oil stuff is getting stronger, and their petrochemicals are bottoming out," says Gaspar, "yet the market is ignoring it."

SITTING PRETTY. Likewise, service companies such as contract oil drillers, and firms with special technology or marketing specialties, should do extremely well if oil prices remain high. But the surest bet may be natural gas companies, which offer the best of all worlds: Many are still undervalued, and they'll benefit if oil prices stay high. And if they fall? Strong environmental pressures, including a new Clean Air Act being hammered out in Congress, could assure increased revenues. Even without a boost from Washington, gas could light up again just with a few weeks of cold weather, which would help drive up demand—and profits. "If we have just a normal winter, we'll see 25% more heating days [than last year] and a lot more demand," says John E. Olson, an analyst at First Boston. "They're poised for recovery."

Still, natural-gas prices, while up a little, are bumping along at only the equivialent of $9 to $10 per barrel of oil. That has kept most gas stocks from rising dramatically. The purest gas plays are U. S. independent producers, such as Mitchell Energy & Development Corp., a Houston-based operator that is sitting on 1,000 or so potential wells, waiting for prices to pop. Mitchell is also a major player in the lucrative liquid natural-gas business. Another attractive natural-gas company is Arkansas-based Southwestern Energy Co. Stephens Inc. analyst Richard P. Straley estimates that the company's assets are worth $39 a share vs. a current price of $33.

Perhaps the best bets are diversified gas companies, which provide the stability of the monopoly utility and upside potential from production. Seagull Energy Corp., for instance, has gas distribution facilities in Alaska and an extensivve exploration and distribution complex in the Gulf of Mexico. Tulsa-based Williams Cos. has pipelines in the Midwest and Northwest. Olson predicts earnings will grow from $1.33 this year to $1.80 in 1990 and $2.15 in 1991. Still, at $26, Williams stock has declined by a third since January and is selling for only 3.9 times cash flow vs. 5 times the cash flow of similar gas companies.

When investing in independents or service companies, look for ones that dominate sharply defined niches—be they specialized markets or emerging technologies. One hot new technol today is horizontal drilling. By dril at angles nearly parallel to the grou such drillers can tap several vertica zones, boosting production three- fourfold. Among producers, the lea in the field is an independent, O Energy Co., a former subsidiary Sun Co. It has streamlined operati and cut costs while spending lavis to acquire oil-rich properties, includ $1.1 billion to buy oil and reserves in the North Sea. its biggest horizontal dril endeavors are in South Te where it is leading a small d ing boom. Oryx stock is about where it was at the ginning of the year, bu should benefit in a strong e gy market. Analysts estim the firm's earnings should 60% in 1991.

THE OTHER GULF. Among ser companies, Baker Hughes and Smith International have strong horizontal dril outfits. Both have risen str ly since January, but still o plenty of promise. S Hughes Tool was merged Baker three years ago, company has slashed co streamlined, and shed mo losing businesses. It now d nates or is No. 2 in virtually ery drilling-related servic provides, and it is trying move even more into horizo drilling and other high-tech vices such as electronic dev that monitor drilling un ground. It's not cheap. At Hughes is selling for a p- 29, vs. 17 for bigger se companies such as Dresse dustries Inc.

Investors willing to w into more speculative is should look at offshore dril Areas such as the North are already strong, with rentals fetching as muc $40,000 a day—the highes years. And in the last months, the once-lagging, rich Gulf of Mexico has just start pick up: Utilization of some po types of rigs there is now nearly

Investors have largely ignored glowing fundamentals. And it is that oil stocks have been in the drums for much of the past de But they are about to awaken—u the not-so-gentle prodding of Sa Hussein.

By Mark Ivey in Houston, with Weiss in New York

SOME STOCKS THAT SHOULD TRIUMPH FROM THE OIL PRICE EXPLOSION

Company	Price*	Comment
AMERADA HESS	51½	Major international oil company; large holdings in Gulf of Mexico, North Sea
ATLANTIC RICHFIELD	137	Large North American oil reserves, mainly in Alaska; high operating leverage
CHEVRON	76	This integrated oil company is trading at only 13 times estimated 1991 earnings
DEKALB ENERGY	30⅜	Major offshore holdings in Gulf of Mexico; assets may be worth $38 a share
HELMERICH & PAYNE	31	A major offshore driller and gas company; shares trading at under asset value
OCCIDENTAL PETROLEUM	20⅛	Significant oil reserves in the North Sea; stock has a 12% dividend yield
ORYX ENERGY	45⅝	An oil driller and gas company, with sizable North Sea oil reserves
PARKER DRILLING	7½	An international contract driller with far-flung, well-located operations
PHILLIPS PETROLEUM	27¼	This major oil and chemical company is trading at 10 times projected 1991 earnings
ROWAN	13⅝	One of the largest North Sea contract drillers; also a major presence in Gulf of Mexico
SOUTHWESTERN ENERGY	33	Arkansas-based natural gas producer; its holdings may be worth $39 a share

*As of Sept. 26

DATA: SURVEY OF ANALYSTS AND MONEY MANAGERS

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BY GENE G. MARCIAL

A GLOSSY PUBLISHER IN A BUSINESS THAT LOOKS DOG-EARED

With the market in a nasty mood, investors find it hard to forget disappointments. Meredith, a diversified media company, is still in the doghouse after a deal that it announced in December stalled. Meredith was ready to sell its 50% stake in its printing operations, but when the Federal Trade Commission opposed the sale in July, the stock slumped (chart). In late August, a Washington federal court rejected the FTC's move to block the deal, which was completed on Sept. 4. But Meredith has continued to drop, along with other publishers, and is now trading at 22, vs. 31 in July.

But that's just fine with some value investors who have been buying shares of this publisher of such widely known magazines as *Better Homes and Gardens, Ladies' Home Journal,* and *Metropolitan Home.* They note that Meredith shares are now selling at less than half of the company's asset value.

Investment manager Mark Boyar argues that in this market, "Meredith is the type of washed-out stock to buy and hold." He notes that apart from its consumer and special-interest publications, the company owns seven TV stations in Arizona, California, Florida, Michigan, Missouri, Nevada, and New York. Plus, he says, Meredith has "a strong balance sheet and cash flow."

ASSET CACHE. The sale of the Meredith/Burda printing operations to R. R. Donnelley for $550 million brings Meredith some $249 million for its 50% stake. Its publishing assets are worth $650 million and the broadcasting unit an additional $300 million, estimates Boyar. Combined with the value of Meredith's real estate and other businesses—and after deducting debt of $150 million (including film-rental contracts and unearned subscription revenue)—Boyar comes up with an asset value of $1.3 billion, or $60 a share.

He insists that with the stock's fall and the company's high asset value, "Meredith is an ideal acquisition candidate." The Meredith family of Des Moines controls 74% of the supervoting B shares and 15% of the Class A common. Boyar notes that no family member has been involved in the company since 1988, so the family may be disposed to a reasonable offer.

MEREDITH: HITTING LOW GROUND

DATA: BRIDGE INFORMATION SYSTEMS INC

Despite its assets, the company's earnings have been stagnant. They peaked at $2.25 a share in 1985 and have been sliding ever since. In fiscal 1990, ended in June, Meredith posted a loss, largely because of a one-time writedown of some nonmedia assets and high broadcast-programming costs. But several analysts expect the company to turn a neat profit for 1991 despite the current ad slowdown. Value Line's George Rho thinks lower paper costs will help boost earnings, which he sees hitting $1.90 a share in fiscal 1991, vs. a 52¢ loss in 1990.

EDISTO: OIL AND THEN SOME

With oil prices in the stratosphere, investors are understandably looking hard at oil stocks. And some pros believe they have found more than the usual oil-and-gas play in Edisto Resources, now at 17 on the American Stock Exchange.

Mainly through NRM Energy, which it acquired in December, Edisto is engaged in onshore oil-and-gas production in the U. S. and offshore in the Gulf of Mexico. While it has yet to make any money, the company will have proven reserves of 9 million barrels of oil and 200 billion cubic feet of natural gas by yearend, estimates Alan Gaines, president of the New York investment firm of Gaines Berland. Edisto's "crown jewel," he says, is its 47.4% stake in Hall-Houston Oil, which has drilled 118 wells in the Gulf of Mexico since 1986. Gaines adds that Hall-Houston has drilled more wells in the gulf in 1988 and 1989 than all but two other companies—Chevron and A

The talk is that Hall-Houston wi public sometime this year, and one lyst figures it could be worth ne $600 million. If so, Edisto's stake be worth $18 a share.

That's not all. Edisto also owns of Multiflex International, a make umbilical hose for offshore oil-platf rigs that controls some 40% of market. A source says Edisto int to take Multiflex public before the of the year and sell 30% of Edis stake to the public. One investor th the company could be priced at million in the initial public offer which would make Edisto's hol worth $3 to $4 a share. This inve thinks the stock could go to twice current price in two years.

BLOCKBUSTER: BUSTING LOOSE?

Blockbuster Entertainment c seem to shake the shorts. ' the stock that Wall Street l to hate," says Bernie Schaeffer, c analyst of Investment Research I tute's Market Intelligence Fax Ser in Cincinnati, who really loves stock. Short interest has balloone 4.8 million shares, or about 8% of 61 million-share float and 13 times stock's average daily volume. But shorts' hopes may burst before lor

Why? The shorts appear to be vinced that the company's accoun practices are too liberal, and they t it won't be able to sustain its growth. More than a year ago, w Bear Stearns analyst Lee Seidler questioned Blockbuster's accoun methods, the stock fell from 26 to But loyal bulls have proved tenaci The stock is now back to 19.

Indeed, business at Blockbuster tertainment, which operates and f chises close to 1,400 videocassette tail stores, has been boomi Revenues in the first half of this y including franchises, have hit $514 lion—up 97% from a year ago. R nues for all of 1989 totaled only million. Joseph Burke, Blockbust treasurer, figures revenues will soa $1.1 billion this year. Next year, re rates, which have been static over past four years, may be raised, says, which should keep earnings revenue growth at 50% at least. A the company has cut the deprecia period for certain videotape sales f 36 months to 12, so earnings will less open to attack by the shorts.

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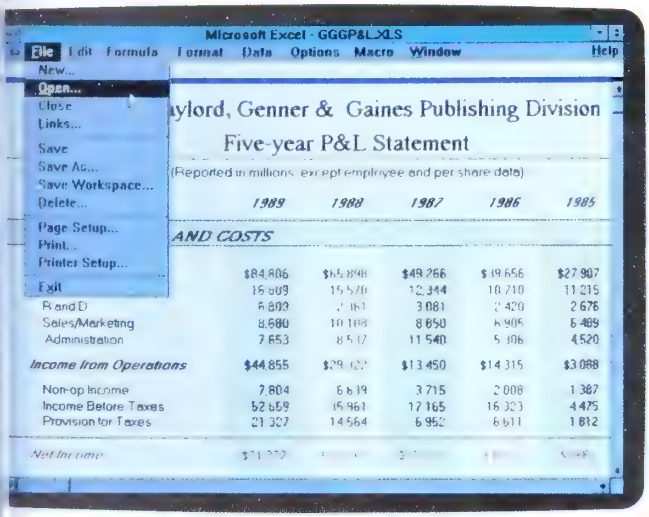

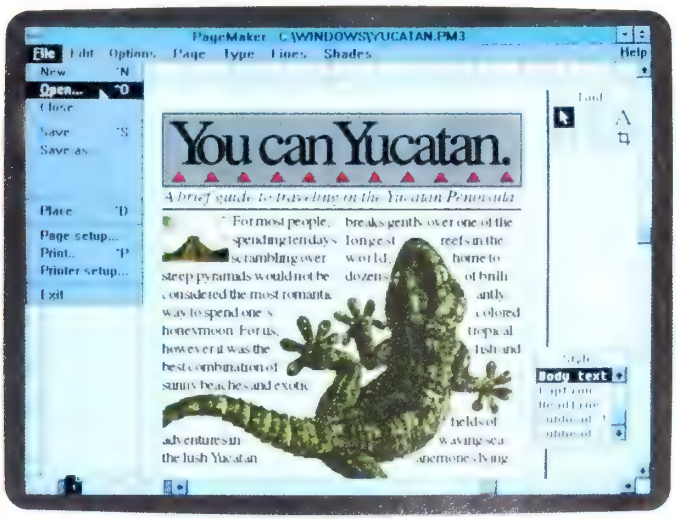

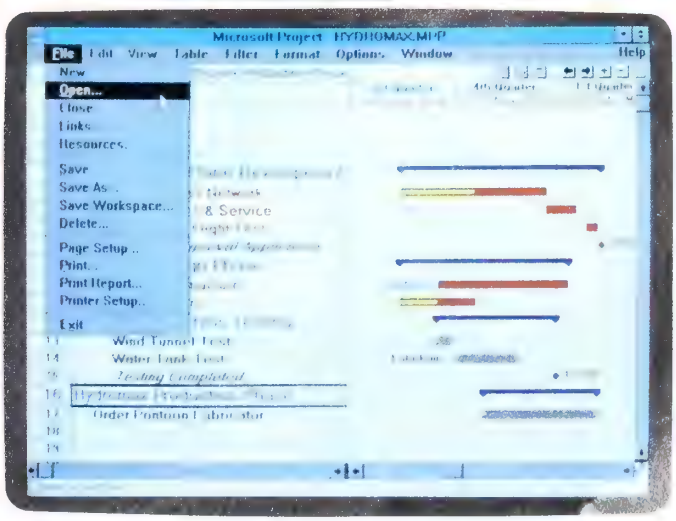

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TAMING TH

VILD NETWORK

The race is on to come up with a winning formula for managing business' sprawling computer networks

Mark S. Teflian remembers well the day United Airlines Inc. lost Seattle. It was a few years ago when suddenly all communications in and out of the company's Pacific Northwest ticketing offices went dead. Business there ground to a halt and angry callers lit up the switchboards. Several hours later, the telephone company told Teflian, now chief information officer of United's Covia computer and communications unit, what had gone wrong: It had hired someone near Seattle to put up a sign warning people to be extra careful when digging near a certain spot because a telephone cable lay close to the surface. The subcontractor accidentally had rammed the warning sign's post through the very cable it was supposed to protect.

Teflian laughs about the incident now, but he has never forgotten the lesson it taught him and United: how indispensable—and vulnerable—communications networks can be. That cable, he discovered the hard way, was the only one in the area that could handle United's computer reservation traffic. Soon after, the airline installed a backup network based on earthling-proof satellites.

Despite the risks, businesses are stringing computers together at an astonishing rate. This year, U. S. companies will hook up 3.8 million personal computers in small office networks, raising the total by 48% over 1989. Many of those networks will tie into minicomputers and mainframes that also control thousands of terminals and printers in offices, banks, factories, and supermarkets. These networks now carry torrents of engineering, sales, marketing, and shipping data flowing this way and that, boosting productivity and improving competitiveness. As the zeitgeist of the on-line corporation takes hold, with companies everywhere trying to connect their multitudes of computers together, networks are fast becoming the modern corporation's vital infrastructure.

NERVOUS SYSTEMS. And not just at the obvious examples, such as a United Airlines or a Merrill Lynch & Co., which need globe-spanning access to computers and telephones for thousands of daily transactions. Networks are speeding communications and giving management up-to-the-second views of inventories, receivables, and market demand at businesses ranging from fast food to industrial chemicals to toy retailing. For many companies, networks have become essential means of production—their very nervous systems.

Nervous, indeed. As useful as they are, networks pose immense technical and management problems. The complexity of a single computer is hard enough to manage, but connect a dozen and the potential for trouble goes up exponentially. It gets even worse when they're in different cities—or countries. Says Kornel Terplan, a Munich-based consultant: "Many networks are so complex now that they just aren't manageable anymore."

With the costs of microcomputer power dropping, along with the cost of transmitting data over phone lines, it has become nearly routine in big companies to plop a PC on a desk and look for a network to link it to. It's easy to string wires and make the other physical and electronic connections to form enormous networks linking tens of thousands of machines. As a result, networks are growing

like wildfire. But the techniques for controlling what goes on in them and ensuring their reliability trail badly. A simple local-area network linking a dozen PCs to a laser printer and a common file system is no big deal. But tie many such clusters together, warns Michael Howard, president of Infonetics Research Institute Inc. in San Jose, Calif., and "a lot of strange things happen." A computer glitch, for instance, can easily choke a network with electronic gobbledygook. Few companies have personnel who possess both the computer and telecommunications skills to put out such fires.

WAYWARD BACKHOES. And network failures are costly. Howard estimates that a typical large company loses $600,000 a year because of network problems. The more complex and far-ranging the network, the greater its vulnerability to such threats as wayward backhoes, software bugs, and determined assaults by hackers and computer viruses. CIGNA Insurance Co., which runs its own nationwide telephone and computer network, figures it can lose $25,000 an hour if one of its claims offices gets disconnected. At American Airlines Inc. last year, a problem at the Dallas computer center brought down the entire Sabre network for 13 hours—during which time flights had to be booked manually. Estimated cost: millions of dollars.

Not surprisingly, just about everybody in the computer and telecommunications business is hawking his own prescription for taming the wild network. It's big business—about $505 million a year for products and services, and headed for $1.8 billion by 1995, says Market Intelligence Research Co. It's also strategic. IBM, AT&T, Unisys, Digital Equipment, and Hewlett-Packard, among others, figure that in the 1990s, the supplier who helps a customer solve the networking problem—and in the process improves the bottom line—will gain enormous influence over what that customer buys. "If you control the nervous system"—the network—"you win the body," says William R. Johnson, Digital Equipment Corp.'s vice-president for telecommunications and networks.

The underlying assumption is that the supplier who sells the network-management scheme will gain the kind of "lock-in" that mainframe suppliers had 20 years ago when there was one, and only one, computer system in any company. As a result, "network management is one of the key strategic battlegrounds in the computer industry," says James Herman, a principal at Northeast Consulting Resources Inc.

LOOMING BATTLE. Indeed, the wide-open networking arena is creating new rivalries. In the 1980s, a widely anticipated epic battle between computer giant IBM and communications goliath American Telephone & Telegraph Co. never ma rialized. Absorbed by challenges to th core businesses, both companies sca back forays into each other's turf. Bu the 1990s, both intend to win in netw management. Other competitors, such General Motors Corp.'s Electronic D Systems unit and Andersen Consulti have jumped in by promising to "o source" network management. For fixed fee, they agree to run a corpo tion's network, and in some cases, entire computer ope tions (page 148).

Getting someone to s ply take the network problem off your ha has a certain allure, there's a trade-off: If network is truly a cru competitive tool, a comp may not want what an out er can supply—when all of its vals can buy it, too. For exampl company such as Mrs. Field's Cool Inc. has succeeded in large part beca of its network. By spending the mo to develop its own computer expert the chain of cookie shops has created advanced network that lets manager its Park City, Utah, headquarters out immediately how well macada nut cookies are selling at a mall in bama. Philadelphia-based CIGNA In ance spends nearly 3% of its revenue almost $75 million a year—running own network. Says Cliff Shorr, vice-p

THE TRAIL OF AN ELECTRONIC TRANSACTION

1 Customer buys diamond earrings for $895 in Detroit. The clerk passes the Visa card through a credit-verification terminal and punches in purchase data

2 The data travel by satellite, land lines, or microwave to National Data Corp.'s [illegible] in Cherry Hill, N.J.

3 From Cherry Hill the credit [illegible] NDC headquarters in Atlanta

The transaction tops $50, so it needs a second opinion. The request is turned over to Visa USA minicomputers at NDC

4 The Visa minis shoot the query to mainframes in McLean, Va., or San Mateo, Calif.

5 The Visa mainframe determine that the card is from a San Francisco bank and sends the transaction to the bank's computer, which checks to see if there is $895 in available credit

The bank's O.K. retraces the path of the authorization request: From the bank to Visa USA to NDC in Atlanta to NDC in Cherry Hill to merchant in Detroit

t for communications management: gives us higher reliability and lower saction costs than our competitors." ıe problem is that even in techno- ally savvy organizations, sprawling networks look like a Rube Goldberg ıo. Since no manufacturer makes all individual parts, customers have ped widely and now struggle to e it all work together. The 1984 kup of AT&T and deregulation of the phone system spurred a huge wave ınovation in communications prod- and services. But it also led to net- ks with infinite combinations of mo- s, multiplexers, concentrators, ocol converters, private data lines, ers, brouters, bridges—to name just w networking devices.

ith some networks comprising as y as 100,000 devices, it's hard just ing track of exactly what's in the ork—and where. "Before [the AT&T] titure," says Philadelphia consul- Joseph M. Rozycki, "you took what got [from AT&T]. Now, you're forced your own phone company."

KENSTEIN. That would be headache gh. But the problem is compounded he dozens of different brands of uters scattered throughout the of- factories, and warehouses of large anies. Each has its own way of for- ng and sending data. "The decen- ed operations that were in such e in the early 1980s are now coming to haunt us with these unlinkable ms," says Michael Morache, vice- lent for marketing at Systematics a Little Rock-based systems inte- r. Adds Mark Luczak, senior net- specialist at Infotron Systems , a maker of networking gear in y Hill, N.J.: "We've unleashed a of Frankenstein."

t that it's impossible to string a lex, worldwide network that works thly—it's just highly unusual. Tex- ıstruments Inc., the Dallas-based onics giant, has a huge network among other things, helps engi- around the world collaborate. The ıcludes 23 mainframes, 2,000 mini- ıters, 31,000 terminals, and 36,000 op computers.

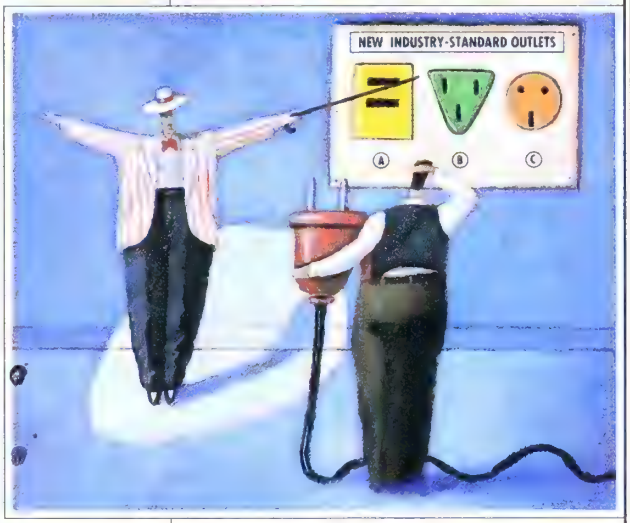
TI is one of the lucky ones. It ılly planned the expansion from 00 terminals in Texas in the early to 50 sites in 18 countries today. companies haven't. Instead, they led computers willy-nilly, and the ems of networking are catching by surprise. "The necessity of ging networks just wasn't recog- in the early '80s," says Howard , president of consultant Network gement Inc. "The network-manage- systems we see today are only try- correct the problems of the past ears." Adds Northeast Consult-

Commentary/by Peter Coy

THE PERILS OF PICKING THE WRONG STANDARD

To understand why computer standards are such a problem, consider the typewriter. The ungainly layout of the Qwerty keyboard was introduced in 1873 to slow down typists so they wouldn't jam the keys. That design imperative quickly disappeared, yet Qwerty has turned back all attempts—including one by its own inventor—to replace it with something faster. The productivity cost? Undoubtedly billions of dollars.

There are two morals to the Qwerty story. One is that picking a standard too soon can lock you into obsolete technology. The other is that even a mediocre standard is better than none. After all, Qwerty caught on so quickly because typists didn't want inconsistent keyboards—"interfaces," in today's jargon.



TIME PRESSURE. The tension between engineering perfection and timeliness shapes most of today's debates over computer standards, especially those involving management of computer networks. First, the engineering challenge is enormous. Imagine trying to manage all the traffic in Chicago while sitting in Toledo and watching a bank of TV screens. Imagine that every time George Bush comes to town, you have to reroute traffic by remote control. And now imagine that your computer from Company X can't fully control the monitoring cameras and traffic lights in Chicago built by Company Y because they use different standards. So much for that Presidential motorcade.

What makes network management so hard is that it has to build on lower-level networking technologies, which themselves are evolving. The International Organization for Standardization (ISO) in Geneva hammered out a broad, conceptual standard for network management, but customers demanded more. So, as soon as they saw a draft of the ISO proposal, computer and phone companies formed the Network Management Forum to refine the concept for use in products that would let different network suppliers' systems communicate easily with each other.

The industry forum was criticized by some techno-thinkers for seeking a "quick and dirty" solution. Ironically, though, it wasn't quick enough. Hundreds of important customers got tired of waiting for the forum standard and adopted a different one that was less complete but had the great virtue of being available. This Simple Network Management Protocol, created for the 35-nation Internet research network, has caught on so quickly that some standards advocates now fear that it may eclipse the Network Management Forum's entry for years to come. They complain that the Internet format is out of sync with the ISO standard and is based on outdated technology. But it's available now. Shades of Qwerty.

CACOPHONY. The challenge, of course, is to bring out official standards before makeshift ones take root. It was easier in the old days, when technology emerged more slowly and from fewer sources. Broadly speaking, it was IBM in computers and American Telephone & Telegraph Co. in phones. Whatever they used became de facto standards.

Antitrust suits pushed IBM and AT&T to let other equipment connect to their mainframes and networks. That opened the way for new companies, lower costs, more choices. And cacophony. Now, it is up to the people who buy computers—and who benefit from the new choices—to force their suppliers to agree on workable standards for network management. A Qwerty-like expedient won't work in the Information Age.

ing's Herman: "I don't think there's a single part of the industry where there's a bigger gap between the real need and what you can get today."

What network managers get a lot of is sensory overload. Each brand of equipment in a network usually reports to a separate control computer, using its own codes and protocols. With a screen to monitor each brand of network components, a network control room may start to resemble a television showroom—or, as Ted Hanss, a networking project manager at the University of Michigan, puts it, "the flight deck of the Starship Enterprise."

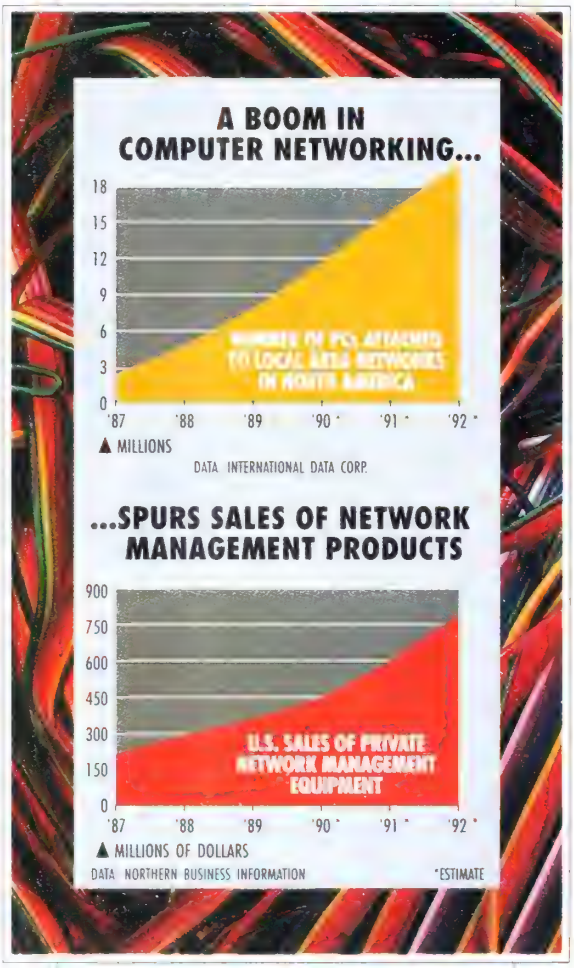
'BABOON-PROOF.' These dimly lit rooms may contain dozens of computer monitors, each displaying in graphics and lazily scrolling text the status of its respective network components. Each device on the network regularly checks in with an update on its status—up-and-running or experiencing difficulty. Usually, all is calm. But when trouble hits, it can look like the meltdown scene from *The China Syndrome*: Thousands of alarm signals may flood across those screens at once, making it tough to figure out what's wrong, let alone what to do about it.

What customers want, and what dozens of suppliers are rushing to develop, is an "integrated" network-management system. The idea is to collect all status reports and alarm signals, no matter what brand of equipment they come from, and present network operators with only the most useful and urgent information—on just one or two screens. Such a system might normally display color-coded overview maps of the network, but also would let technicians zoom in on small details anywhere they wish. And artificial-intelligence software might filter incoming alarms, give detailed advice, and even act automatically to, say, reroute traffic around a dead switch. "Everyone would like a baboon-proof way of handling those [different] information feeds," says Tyrone Pike, president of New York network designer LANsystems Inc.

For now, the network-management game is being led by just a few large, influential players. AT&T has seized on it as a market where its unparalleled knowhow in managing communications circuits will finally give it an edge in computers. That's putting it on a collision course with IBM, which wants to establish its near-ubiquitous mainframes as the control hubs of corporate networks worldwide. DEC, the No. 2 force in computers, has also launched a comprehensive management scheme that it hopes will strengthen its already substantial role in many major networks.

Big Blue elevated network management to a strategic marketing issue mainly at DEC's prodding. In 1986, DEC was well ahead of IBM in connecting computers of different sizes. To deflect attention from its relative weakness on that score, IBM renamed a group of its previously distinct networking programs "NetView" and began pitching their ability to manage its mainframe-based networks. That suddenly put DEC, with no mainframe to sell, on the defensive. Just like that, "IBM created an industry," says Steve Wendler, a former DEC employee now with market researcher Gartner Group in Stamford, Conn. "It masterfully outmarketed DEC by redrawing the battlefield."

Since then, IBM has pushed network management as a key role for its System/370 mainframe. With inexpensive, microprocessor-based machines taking on mainframe powers, the 370's traditional *raison d'etre*—large-scale processing—has been severely questioned lately. But IBM already has sold an estimated 10,000 copies of NetView, a mainframe package that costs anywh from $20,000 to $300,000, depending the size of the network. NetView ov sees the so-called logical aspect of n works—routing traffic around fai hardware and transferring mass blocks of data between machines. AT on the other hand, leads in managing physical aspects of networks—the act wires and circuits connecting comput and telephones in one city to those another. Now it sells Accumaster In grator software for network mana ment. It is also selling its services. example, 20 AT&T technicians working full time at Ford Mo Co. to keep its voice and data n works running smoothly. DEC mains well behind, but DEC's Ent prise Management Architectu praised by many network techno gists, could win substantial mar share.



NEUTRALS. Other emerging play range from Nynex Corp. to Mot ola Inc., through its Codex d communications unit. One nota independent is Systems Center I in Reston, Va. The $77 million s plier of mainframe software quired a package called NetMas early this year. It's similar to N View, but besides running on mainframes, it runs on machi from Tandem and DEC, allow those rivals to manage the wor 38,000 IBM mainframe-based works. Says Systems Center Ch man and CEO Robert E. Co "We're the neutral player."

Neutrality is getting to be one the hottest issues in network-m agement circles, at least am customers. As they're doing w shopping for computers, buyers insisting on industry standards networks. They fear compu makers will use proprie networking software as a new l in. "Old habits die hard," says in Crook, Citicorp's chairman corporate technology. A standard c munications code used by control throughout the network would let ev PC, modem, and data switch on the tem report to one central computer.

Coming up with such a lingua fra is no easy matter (page 145). Since 1 the Network Management Forum, by the biggest computer and phone c panies, has tried to create one. But w they hammer it out, some 25 suppl are adopting Simple Network Man ment Protocol (SNMP), a less compre sive standard but one that is easy to to existing products. Many observers lieve, however, that eventually the rum's Common Management Infor

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tion Protocol is most likely to prevail.

With no dominant standard, suppliers are putting high-powered marketing efforts behind their own network-management schemes. "You're not going to make money on network management right now," says Dale Kutnick, president of consultant Meta Group in Westport, Conn. "It's more about account control and winning the next phase of equipment purchases." Many customers don't want to cede that kind of influence, notes Crook. Problem is, "most customers have been so disorganized until now that they haven't been able to exert pressure on this issue," he says.

That's changing, though. A group of corporations that includes GM, Ford, General Electric, Amoco, Eastman Kodak, Merck, and Du Pont has just formed the User Alliance for Open Systems—briefly known as the Houston 30, because of an August meeting there. With aggregate computer budgets in the billions, the group is demanding that suppliers move faster toward industry-standard gear—particularly for building and managing networks.

But even with standards, managing huge networks will remain a challenge for both customers and suppliers. suppliers, they'll always be one of largest and most complex "machi ever devised—and a source of con ing competitive battles. And for the porations that use them, they'll b essential—albeit little understood— ness tool.

By John W. Verity, Peter Coy, and frey Rothfeder in New York, with bu reports

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OUTSOURCING: MORE COMPANIES ARE LETTING GEORGE DO IT

Do you sometimes wish that your company's tangled network would just go away? Dozens of American corporations—GE, Avon, Eastman Kodak, H. J. Heinz, and Duracell among them—have made it happen. They have forged multiyear, multimillion-dollar alliances with computer makers, telephone companies, and high-technology consultants to take networks off their hands.

It's called outsourcing, and it makes good sense. It could cut annual data and telecommunications expenditures by as much as 30%—and it trims capital outlays. What's more, outsourcing can keep a company from getting stuck with obsolete equipment. For systems integrators, such as Andersen Consulting, Electronic Data Systems, and Perot Systems, it's a logical extension of existing businesses. For companies such as IBM, AT&T, and Digital Equipment, it's a hot growth opportunity when sales of mainframes, PBXs, and minicomputers are slow.

The concept is catching on. IBM has won four outsourcing deals worth about $700 million, and Electronic Data Systems Corp. has grabbed 10 for $7 billion. Of the 100 top information-technology buyers, 20% are expected to farm out parts of their networks in the next year, says market researcher Yankee Group. Outsourcing revenues will double from $5.9 billion last year to $12.8 billion in 1994, predicts Input, a computer consulting firm.

THE NEXT WAVE. Outsourcing is growing because corporations want to use technical resources for more strategic projects. A decade ago, companies such as American Airlines Inc. created their own networks to gain competitive advantages. Now, says Katherine M. Hudson, vice-president and director of corporate information systems at Eastman Kodak Co., networks are "critical to our business, but it's not critical that we operate them."

Kodak recently farmed out its network to IBM, DEC, and BusinessLand for an estimated $500 million over five years. That, analysts say, could trim Kodak's data-processing budget by a whopping 50%. Bank South Corp. expects similar returns. In 1989, it chose IBM to run its data network for 10 years. "Conservatively, we'll save $25 million," estimates James A. Dewberry, the bank's executive vice-president.

KODAK'S HUDSON: BIG SAVINGS ARE SEEN

But there are limits. "You're asking too much of human nature to ask outsourcing to work completely," says David M. Edison, executive vice-president of outsourcing provider Westinghouse Communications Systems. Merrill Lynch & Co., for example, last fall nounced with great fanfare plans fo $50 million, five-year contract with and MCI Communications Corp. to m age its voice and data network. Wit months—and without fanfare—Me backed out. IBM and MCI didn't h "the right mix of people to mak work," says DuWayne Peterson, M rill's executive vice-president for op tions, systems, and telecommun tions. IBM and MCI are still work with the brokerage on other netw ing projects, however.

BUYING IN. Merrill may have go caught up in outsourcing overkill. win business, says Howard Ande president of Yankee Group, sourcing companies are "talking and offering financial incentives." even purchases stakes in ailing con nies in return for contracts. In Sept ber, it announced plans to pay a $25 million for 50% of Westwood E ties Corp. It expects to get $300 mi in outsourcing work over 10 years

The Bank South/IBM deal repres a good balance in outsourcing. IB building a new data center for bank, which it will staff, run, and upgrading. It will also have the r to sell excess network capacity to o customers. But Bank South will on to "the core of our business," Vice-President Dewberry: develo the software for business applicat that run on the network.

Even with its shortcomings, sourcing is likely to become a pop solution. Many companies need to costs and are hard pressed to find ple to manage increasingly com networks. For them, farming it o the only way out.

By Jeffrey Rothfeder, with Peter in New York, Gary McWilliams in ton, and bureau reports

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om the day of its introduction, DS' V.32 modem has gathered nors from leading computer publi- tions and other industry atchers!

tially it set the standard for 9.6 ps, full-duplex traffic over dial-up es. When MNP® level 5 data mpression was added, through- t went to 19.2 kbps.

ow comes the FasTalk V.32/42b— nodem that is specifically de- gned for PC applications and is ly compliant with CCITT's V.42*bis* commendation. Meeting this andard gives the V.32/42b a aximum data rate of .4 kbps!

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Why establishing insurance program

THE NEXT ONE MAY NOT BE IN CALIFORNIA.

Scientists warn that the probability of a cataclysmic earthquake striking the United States is becoming greater all the time.

They're not just talking about California, either. A major quake might well strike the East Coast and Midwest.

Such an earthquake, measuring, say, 8.0 on the Richter scale, could result in thousands of deaths. With property losses alone reaching $70 billion.

THE ENTIRE COUNTRY WOULD SUFFER.

Consider this.

Were a major earthquake to strike a city like Los Angeles, St. Louis or New York, the entire country would pay the price. And the impact would extend far beyond the deaths, personal injury and property damage in the immediate quake area.

Start with disruption of critical energy and communication lines, food distribution and transportation. Add the problems in the financial markets that would inevitably arise as the insurance industry mobilized the funds to pay massive claims.

Worse yet, the insurance industry, drained of cash, might be unable to raise new capital to meet ongoing obligations and offer new coverages in the future.

As a nation, we can't afford to let this happen. Yet it easily could.

WE NEED TO BE BETTER PREPARED.

Destructive earthquakes will continue to occur throughout the world. The only real uncertainties are when and where.

Minimizing their effects calls for some fres thinking. That's where The Earthquake Project comes in.

The Earthquake Project is supported by companies that have been working individually and through trade groups for several years to lay the groundwork for legislation to address this problem. Our go

ederal earthquake
ital for all Americans.

; to protect the integrity of our economy in ıe event of a major quake.

And to make earthquake insurance vailable and affordable to every American omeowner and business.

A GOVERNMENT-INDUSTRY PARTNERSHIP APPROACH.

The proposed legislation would create a deral earthquake insurance program ased on a government-industry artnership. The program would increase ıe number of homeowners purchasing ısurance, thereby spreading the cost of sk more broadly. As a result, rates would e generally lower than they are today and verage would be more affordable.

Another feature of the program would be ıe creation of a federal earthquake insurance corporation. Commercial surance companies could purchase ldditional reinsurance from this rporation to supplement their existing pacity. This extra layer of protection ould come into play in the event surance industry earthquake losses ceeded some predetermined large figure– y $8 billion.

IT WOULD PROVIDE THE RESOURCES TO REBUILD OUR ECONOMY.

With such a program in place, compen-tion could be available to every rthquake victim suffering property sses. Moreover, the reinsurance aspect of e plan would assist the insurance dustry in performing its role of efficiently allocating the resources needed for rapid recovery and for rebuilding our economy.

As we see it, a federal earthquake insurance program, undertaken with the participation of government, business and American homeowners, is no longer a matter of choice.

It's a necessity.

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AIG is a founding member of, and participant in, The Earthquake Project. We believe the American public should understand the probable extent of devastation from a major earthquake. And the ways we as a nation can prepare to deal with it.

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Outdoors

PEDALING THROUGH A LEAF-LOVER'S PARADISE

BW'S VOGEL ON A TOUR IN SOUTHERN CONNECTICUT

The hill crests, breaks, and then spreads for miles into a lake-filled valley. Spring water, so clear we can use it to replenish our bottles, tumbles from a crease in the rock. As we swoop down toward the lake, nothing moves in the hushed scene save an occasional bird skimming the water's glassy surface. No noisy car engine disrupts the silence. No glass windows separate us from the stone-lined country road.

Cycling through New England reduces the world to a few simple elements: you, your bike, and the resplendent terrain. And that terrain is especially spectacular during fall foliage season. The six New England states encompass a variety of land- and seascapes. Ride through rural Maine, where rotary phones are *de rigueur*. Pedal through New Hampshire covered bridges, or along rocky Rhode Island coastlines. With only the whir of your wheels breaking the hush, you leave the machinations of the business world miles behind.

These pristine touring spots aren't hard to uncover. For those who don't want to sweat the details, several companies offer package tours: Vermont Bicycle Touring (802 453-4811), Maine Coast Cyclers (207 594-2100), and, in New Hampshire, The Biking Expedition (603 428-7500). Typically, a tour guide designs the routes, arranges accommodations in country inns, and provides breakfast and dinner. You get a map and directions, allowing you to journey at your own pace.

ROADSIDE SUPPORT. But planning rides on your own is part of the fun. In Vermont, even the convenience stores sell maps with possible routes around the state. And most bookstores carry a line of touring guidebooks. One excellent source: *The Best Bike Rides in New England,* by former computer-industry analyst and avid cyclist Paul Thomas (Globe Pequot Press, $10.95). Thomas provides useful details about distances, difficulty of terrain, and how to avoid busy roads.

On a typical weekend, we pull into town on Fri night, choosing a bed-a breakfast close to our r to serve as our base ca With a few days' advance tice, a local chamber of merce can easily help t down a selection of B&Bs. ter a big breakfast on Sa day morning, we ride toughest route, saving day for a cool-down jaunt

One especially good tou the Saturday variety is Maine, along roads that between the Kennebec Sheepscot Rivers. The starts in Wiscasset, wh two four-masted clipper sh remnants of the days w cargo traveled by fi winds, have been picked a by the elements and lay m

harbor. We pass a 19th ry jail, an 18th century l and meetinghouse, and quil inlets with their s and sea gulls.

few miles past the old lhouse, we see a massive act-sculpture garden on de of the road—an eerie nce in the isolated coun- le. We stop for lunch at Os diner in Richmond, so il it almost looks like York chic. Then we wind along the Bath boat to Wiscasset.

IT BAG. Trips like these require a gazelle-like bike. But you should sure your two-wheeler good working order. And want to hitch on a few cials, such as a water , a frame-mounted tire and a small carrying In that satchel, stuff a for late afternoon, energy tends to wane, a tire tube in case of a s blowout, a tube-patch id spare change for an emergency. Always wear a helmet—a good idea in general, but a must in hilly New England.

In fact, the hills that help make this countryside so stunning can also become your worst enemy. You don't have to be Greg LeMond to tour the region, as long as you choose a ride that matches your physical condition. Occasional cyclists should look for short and comparatively flat rides until they build up strength.

One such tour might be around the sedate towns of Great Barrington, West Stockbridge, and Glendale, nestled below the Massachusetts Berkshires. Within minutes, we zip through these villages, often full of tourists scouting stores for antiques, and flee into the rustic countryside. Cruising along a stunning view of the Berkshire mountain range, we pass an isolated airstrip, with vintage airplanes. A deer even scampers across our path.

Whatever shape you're in, never add more than 20 miles to your trip each time you ride. And above all, believe the book when it says a ride is tough. You can't enjoy the scenery on a killer trip if all you're thinking about is reaching the end. We found that out the hard way when we attempted a 10-mile climb up Mt. Greylock in northwest Massachusetts. Final score: mountain 2, cyclists 0.

It's worth it to build up to more rugged terrain, however. Often the most complete get-away-from-it-all experiences are rides through areas such as Northeast Kingdom in Vermont. On a recent trip, we pedaled across dramatic cliffs, Mt. Pisgah and Mt. Hor, that ring Lake Willoughby, descending past loose boulders that line the roadway. We passed towns too small for a traffic light. And when we tried to keep our bikes within eyesight at a local grocery stop, an aggrieved local jumped from his chair on the porch. We weren't in thieving New York City, he fumed. As if that needed saying. *Todd Vogel*

Health

HANCE TO E THE LIFE A STRANGER

year ago, Danny Storey, an Air Force equipment specialist waukee, agreed to do- one marrow to a leuke- ctim he had never met. ransplant was success- ays an ecstatic Storey: 're not giving up any- from yourself, but you aved somebody's life."

ey is one of 200,000 who've joined the ear-old National Mar- onor Program (NMDP), matches victims of fa- od diseases with unre- donors. The odds of a match is remote— ,000 to 1, which is why 430 such transplants een made so far. Still, odds improve as more sign up. Corporations ning the effort. In July, l Mills and Searle announced employee programs: The companies will pay the $75 cost of "typing."

Anyone from 18 to 55 and in good health can undergo this first step. An NMDP-affiliated blood bank or hospital will type your blood for basic human leukocyte antigens. The information is stored until you're given a preliminary match with a recipient, which could take years. There's a less than 20% chance you'll be called at all.

MANY TESTS. If you are, you undergo additional compatibility tests, a complete physical exam, and psychological counseling. "You know you're giving a specific person the only chance at life he has," says Tony Steele, coordinator of the NMDP at Belle Bonfils Memorial Blood Center in Denver. So far, over 50% of the recipients have survived.

If you feel you can't take it, this would be the time to back out. That's because the next irrevocable step is for the recipient to undergo rigorous chemotherapy aimed at destroying bone marrow so it can be replaced with yours.

Donating marrow is not simple. You are placed under general anesthesia while the marrow is extracted from your pelvic bones. Expect an overnight hospital stay and to ache for about 10 days.

The marrow, meanwhile, is rushed to the recipient for transplant within 24 hours. You'll know only the patient's first name and age, but you'll be kept informed about his or her status. Once the procedure is completed, however, the two of you can exchange names and even meet. The family of one leukemia victim who died actually listed his donor among his survivors.

Because of the emotional impact, the NMDP (800 654-1247) initially limited people to one donation, but it's reconsidering. That's because of donors such as Maria Gaitan-Endres, a property manager in McLean, Va. She gave marrow to a 33-year-old West Coast leukemia victim in August. The outcome is still in doubt, but she found the experience so rewarding that "I'd give again in a heartbeat." *Sandra Atchison*

BONE MARROW RECIPIENT JAY GIBSON AND DONOR DANNY STOREY

Collecting

VINYL GOLD: ORIGINAL-CAST RECORDINGS

As compact-disk players proliferate, music companies are reissuing original-cast recordings of old Broadway musicals on shiny new CDs. But if you buy one to replace a cherished vinyl show album, think twice before tossing out the scratched record and its worn cover. Like first-edition books, some are valuable collectibles.

Take the album of a show called *Jennie*, a short-lived Broadway vehicle that starred Mary Martin in 1963. Worth $6 originally, it goes for $50 or so now. One of Rodgers & Hammerstein's lesser hits, *Me and Juliet*, might fetch $40.

'GORGEOUS ARTWORK.' And a true rarity can be worth much more to several thousand collectors in the U. S. and overseas. The LP of *Parade*, a 1960 off-Broadway revue with songs by Jerry (*Hello, Dolly*) Herman can sell for $350. The 1975 English musical *Jeeves* might fetch $150: The show was Andrew Lloyd Webber's only flop, and the composer of *Phantom of the Opera* and *Cats* is rumored to have bought up most of the albums. Rarest of all: a souvenir album of *Clownaround*, a 1973 circus musical directed by Gene Kelly that never opened on Broadway. Dealers boast of getting $1,000 for a copy, although the score is reputed to be dreadful.

THE MUSIC MAN: GENE DINGENARY OF FOOTLIGHT RECORDS

"It's hard to say why some people will pay more for a used 33⅓-rpm *How to Succeed in Business* than for a new CD with the same songs, but they do," says Gene Dingenary at Manhattan's Footlight Records. At another dealer, Dress Circle, in London's theater district, ma
er Michael Mulligan exp
"Many of us think CDs h
cold sound, and, too, th
the gorgeous artwork an
er notes on the big LP co

Along with rarity, the
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Most collectors aren't
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Where's Charley? in
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and, true to his colle
spirit, feels sure "some
be worth more as they g
of print." *Don*

Smart Money

LIFE INSURANCE THAT PAYS OFF WHEN THE DOLLAR IS AILING

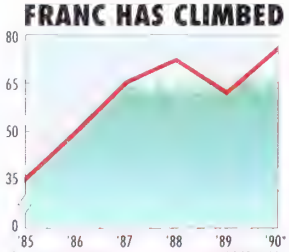
Who seeks a long-term investment that earns guaranteed interest of 3% or so? Some investors with a pessimistic outlook for the dollar, that's who. What they're buying is an intriguing foreign-currency play—along with dollops of tax deferral, asset protection, and even tax-free withdrawals. It's all part of a life insurance policy bought directly from one of Switzerland's closely regulated insurers.

GROWTH PLAY. Providing for survivors is not the primary idea. "A $50,000 premium only buys an immediate death benefit of about $90,000—far less than with a domestic policy," says financial planner Michael Hanley of First Financial Resources in Wayne, Pa. Instead, the aim is to let the policy's cash value grow with interest and dividends (free of Swiss taxes), then surrender the policy to collect the entire sum.

Some 20 Swiss insurers offer policies that use a tiny part of your premium ($10,000 minimum) to provide a basic death benefit. The bulk goes into a cash-value account earning a minimum 3%, which is reinvested. Annual dividends vary, "but over the past 10 years, they raised the rate of return to 6% or 6.7%," says economist Walter Hurni at Zurich broker Jurg M. Lattmann. It has a U. S. tie-line (800 346-2129) and can provide proposals from Geneva Life, Ticino Life, and others.

For example, a Geneva Life proposal for a 48-year-old female says a single premium of $210,000 would grow to roughly $335,000 with 10 years of interest and dividends. But the big lure is what can happen if the dollar continues to fall vs. the Swiss franc, which has doubled since 1985 (chart). If the franc is 10% higher in 10 years, the $210,000 grows to nearly $670,000; 15% appreciation, and it can climb

HOW THE SWISS FRANC HAS CLIMBED



DATA U S ANNUITIES

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Is Swiss insurance for
investor? "Obviously
notes Paul Black, fin
vice-president at Zu
American Life in Sch
burg, Ill., a subsidiary o
rich Life in Switzerland.
for someone pretty sop
cated—whose last conce
insurance."

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The right choice.

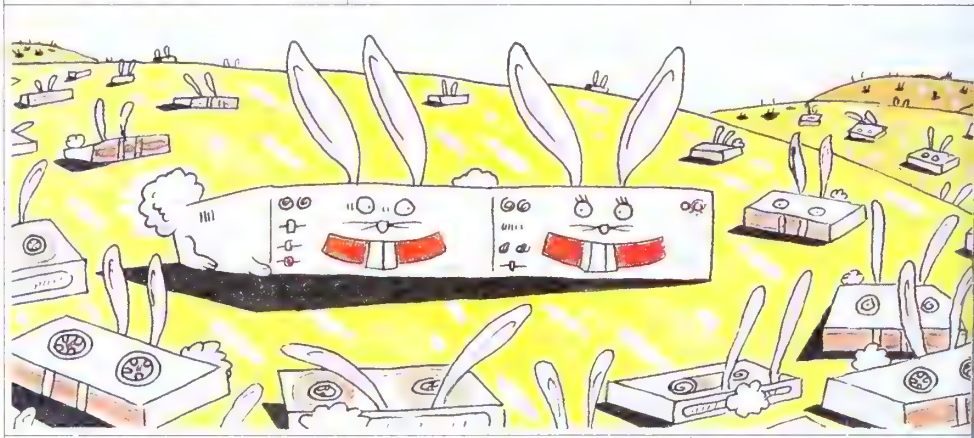
Video

THIS DOUBLE-DECKER VCR MAKES COPYING A SNAP

Sometimes it seems that VCR technology outstrips human capability. Copying a home video off the camcorder sounds like a fine idea until you face the prospect of unplugging that maze of cables behind the TV. As for hooking two VCRs together to copy rented movies—please. You have enough problems programming one machine, let alone two.

Well, help is finally here. A tiny Arizona company, Go-Video, has come out with a dual-deck VCR system that makes copying tapes a snap. It's not cheap, however: For its $1,095 price tag, you could buy three ordinary VCRs (even four if you are willing to forgo stereo sound). And for such an expensive machine, it's surprisingly lacking in some areas.

GOOD SOUND. Although it hooks up to your TV and antenna or cable system the way a conventional VCR does, the GV2000 is really two separate VCRs nestled side-by-side in a single box and wired together internally. When duplicating, just insert the original tape in the left slot, a blank tape in the right, and press the extremely prominent button that says "copy tape." The duplicate's picture quality is close to the original. And the system's Dolby noise-reduction circuitry makes for dramatically improved sound.



The GV2000 has other advantages as well. You can watch a prerecorded tape on one system while the other records a TV program. Or you can record TV programs on two different channels simultaneously, handy during the network "sweeps" months, when all the best movies seem to be broadcast simultaneously. You can also do rudimentary editing—taking the commercials out of taped TV shows, for instance.

But while it simplifies copying, the GV2000 is, after all, two VCRs, with twice the complexity of one. To limit the number of buttons, Go-Video has resorted to a system of stacked menus that are called up on the TV screen. That turns an easy job—such as changing tape speeds, a press of one button on most VCRs—into an exercise akin to operating a computer: One stroke to call up the main menu, another to get to the video menu, a third to select the VCR deck, a fourth to change tape speed, and a fifth and sixth to get back to the TV picture.

And there are other an
ances. The GV2000 has
special effects, such as
motion—a feature commo
VCRs one-third the price.
it must complete an opera
before it recognizes ano
command: You can't, for
ample, push "stop" and
wind" in quick succession

Still, there's clearly a
up demand for what is
out question the easiest
to duplicate tapes: Laun
last month, the GV2000 i
ready a hot-seller at
Sharper Image and H
macher, Schlemmer—de
being $200 over list at th
ter. In the next few mo
Go-Video aims to widen d
bution, which will inevi
lower prices. But plan on
ing four figures if you
to copy without care b
Christmas. *Larry Arms*

Facsimile

BEWARE OF THE FAX DIRECTORY HUSTLE

It's an old scam with a brand new twist. A formal-looking invoice arrives, billing your company for a listing in an international business telefax directory, such as the "World TeleFax Directory" or the "International Fax Directory." Payment of $500 or $1,000 is due in 30 days, often to a post office box in Switzerland or West Germany.

Unless you alert your bookkeeping department, you may be getting ripped off: Such invoices are often for phantom entries, say European investigators.

Playing on the recent proliferation of fax machines, the deception resembles an old swindle involving nonexistent telex directories or office supplies that were never ordered. The hope is that an unsuspecting office manager will be hornswoggled by the formal-looking demand for payment, and fork over.

"There's just nothing we can do about it, either," says Edouard Clasen, chief of directory services for RTT, Belgium's state-run telephone system, who keeps a list of suspect directory companies. (When Clasen tried to contact three of the companies—two in Zurich, one in Sevelen, Switzerland—he discovered that their addresses were merely mail drops.)

FINE PRINT. The problem for prosecutors, says Clasen, is that cross-border fraud laws for such matters are too loose. If somebody decides to sue, there are difficulties. Defense lawyers point out that a careful reading of the fine print on the invoice merely states an intention to print a directory. It doesn't actually promise anything.

Report any suspicious invoices you receive to your local phone company and to the police. And don't pay the bill, because once your check is cashed, that money is lost for good. *Jonathan Kapstein*

Worth Noting

■ **LP LINE.** A new ser
from researchers Rober
Stanger & Co. offers dat
over 25,000 limited part
ships: which LPs ma
makers want to buy, fu
net revenues of oil in
ments, and, for 80 LPs,
cent appraisal-based va
Calls cost (900 786-9600
per minute.

■ **DIGITAL WALKMAN.** C
December, audiophiles
find big sound in a p
sized digital audiotape W
man ($850) from Sony. D
digital and analog record
can be made, but you w
be able to duplicate t
dubs. There's also a car
player ($1,100).

Asia Series

Anyone contemplating doing business in Asia should first receive a little wisdom.

In business, knowledge is power. And anyone who does business in the Pacific Rim without knowing the culture is working at a disadvantage. Which is why Northwest is proud to underwrite the four-part public television series "Yue-Sai Kan's Doing Business in Asia." It's an insider's guide to success in Japan, Taiwan, Hong Kong, and South Korea. You'll profit from the Asian experience of companies like Coca-Cola, Citibank, Estee Lauder, IBM and Ford. And of course, you'll benefit from the insight Northwest can offer after more than 40 years of helping people do business in Asia. Check local listings for date and time of broadcast. In just a short while, you'll be infinitely wiser.

90 Northwest Airlines, Inc.

NORTHWEST AIRLINES

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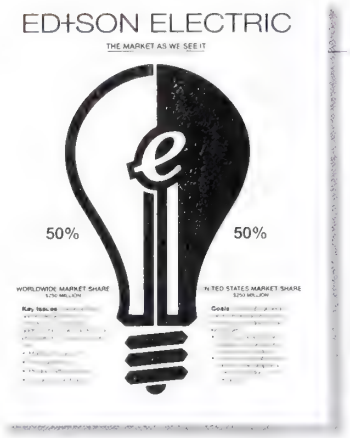

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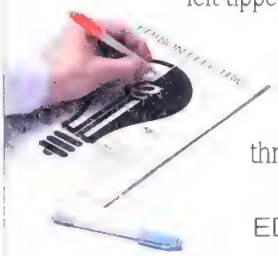
▸ It produces 28 clean, crisp, black-and-white copies per minute in sizes up to 11″ x 17″.

▸ The Konica 8028 adds red and/or blue, edits or reverses any image. All with a simple stroke of an ordinary felt-tipped marker. All in a single pass through the copier.



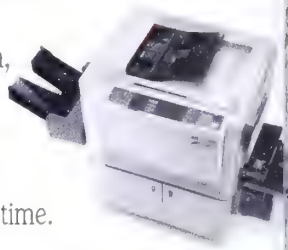
▸ It copies onto a variety of paper stock, even transparencies. And reduces or enlarges from 50% to 400%.

▸ The Konica 8028 does all this, and still remains compact, affordable and easy to use.

▸ So whether your light bulb needs changing or not, this is the answer:

One.

▸ The Konica 8028. Only from Konica, so you know it just works all the time.



▸ For more information, call 1-800-648-7130, Ext. 100.

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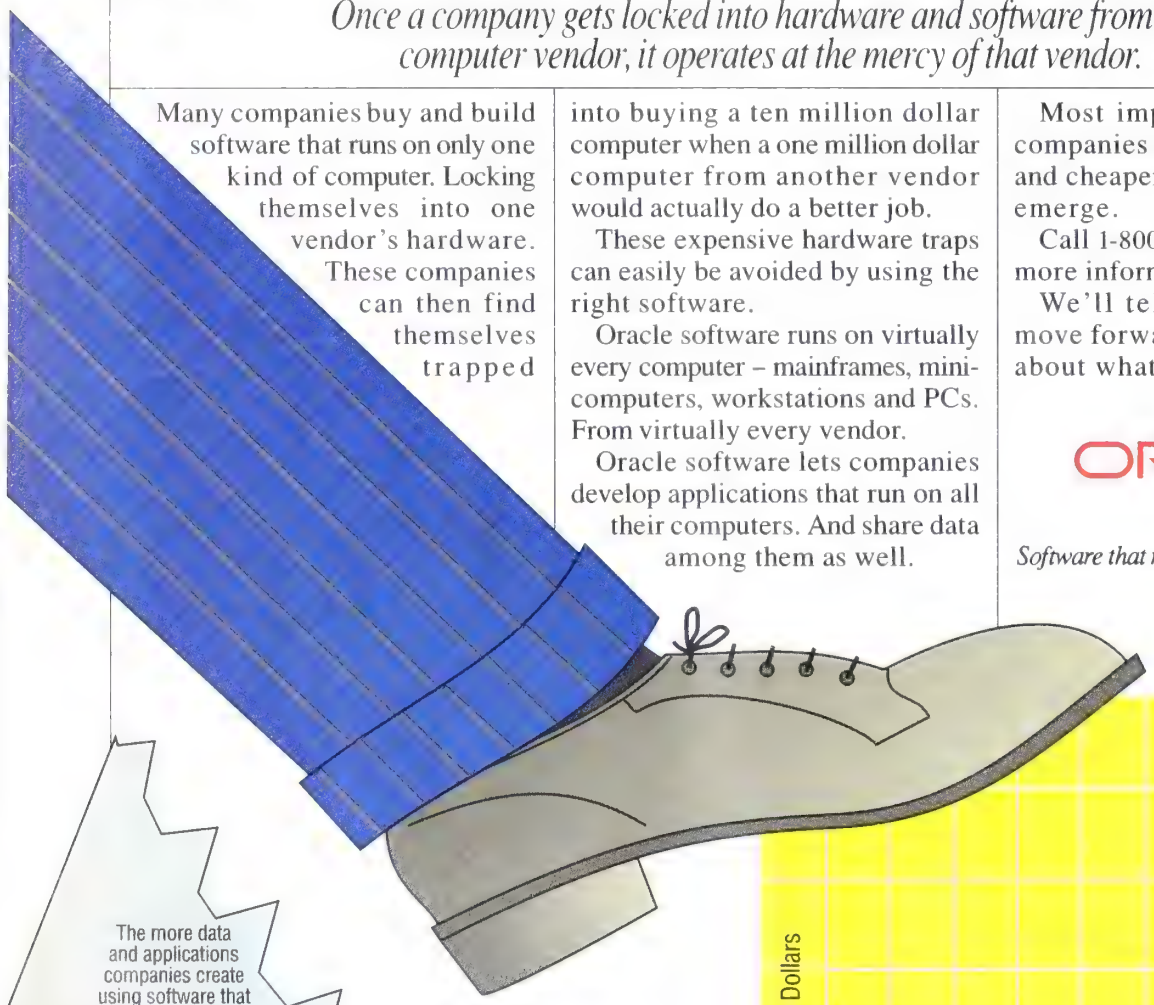

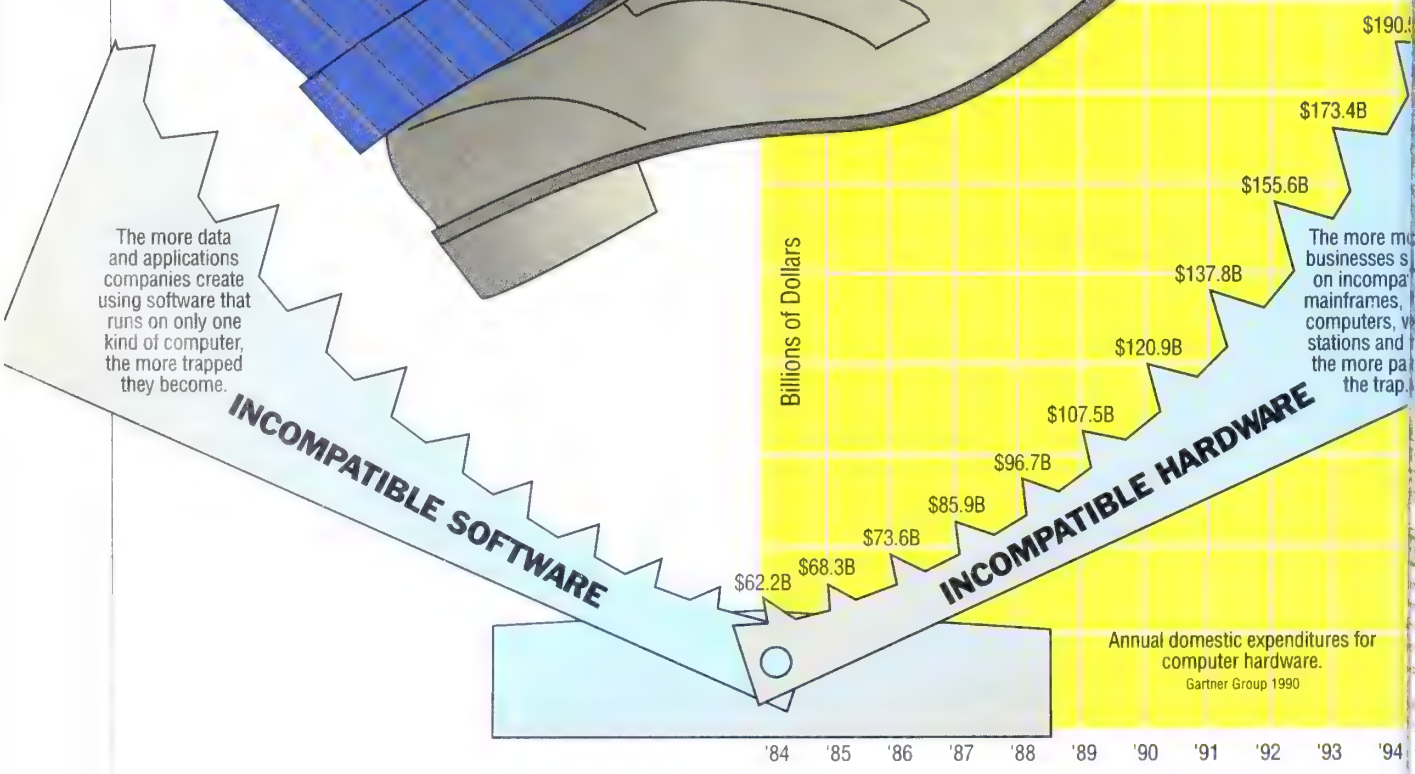

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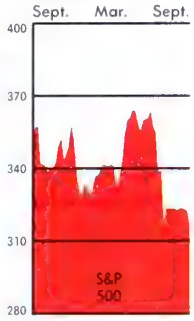
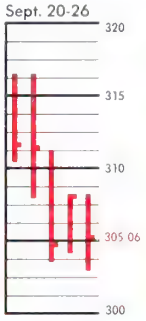
week to forget in the fi-
narkets. Growing reces-
ears and dimming pros-
peace in the Middle East
a one-two punch. On
, the yield on the 30-year
bond increased to
its highest level since
989. On Sept. 26, the
ies industrials fell to
ear its 14-month low, af-
overnment said durable
ders dropped 0.8% in
and oil futures rose to
a barrel.

STOCKS

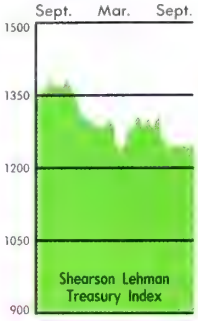


52-week change **–11.6%**



1-week change **–3.6%**

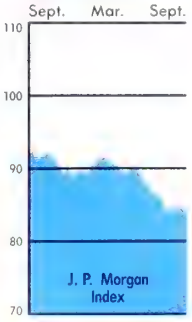
BONDS



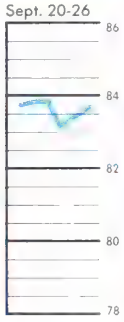
52-week change **–7.5%**

1-week change **–1.0%**

THE DOLLAR



52-week change **–8.6%**



1-week change **0.0%**

KET ANALYSIS

OCKS	Latest	% change Week	% change 52-week
NES INDUSTRIALS	2459.7	–3.8	–8.0
IPANIES (Russell 1000)	157.5	–3.8	–13.6
OMPANIES (Russell 2000)	128.7	–5.9	–27.0
IPANIES (Russell 3000)	166.9	–3.9	–14.5

N STOCKS	Latest	% change (local currency) Week	% change (local currency) 52-week
(FINANCIAL TIMES 100)	2000.0	–3.2	–14.2
NIKKEI INDEX)	22,250.6	–6.2	–37.1
) (TSE COMPOSITE)	3181.5	–2.9	–18.8

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	7.6%	7.7%	8.1%
30-YEAR TREASURY BOND YIELD	9.1%	9.0%	8.3%
S&P 500 DIVIDEND YIELD	3.8%	3.7%	3.2%
S&P 500 PRICE/EARNINGS RATIO	14.3	14.8	13.3

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 26-week moving average	343.5	344.7	Negative
Stocks above 26-week moving average	13.5%	17.2%	Positive
Speculative sentiment: Put/call ratio	0.61	0.55	Positive
Insider sentiment: Vickers sell/buy ratio	0.73	0.75	Positive

STRY GROUPS

BRIDGE INFORMATION SYSTEMS INC

EEK LEADERS	% change 4-week	% change 52-week	Strongest stock in group	% change 4-week	% change 52-week	Price
H CARE SERVICES	23.4	25.3	BEVERLY ENTERPRISES	29.3	–14.5	6⅝
AL GAS DISTRIBUTION	9.9	1.4	ONEOK	16.8	3.3	15⅝
ID GAS DRILLING	6.4	36.5	ROWAN	8.5	62.0	14⅜
	5.2	–0.8	PITTSTON	9.3	–3.8	19⅛
IAL TELEPHONE COMPANIES	4.2	–7.8	PACIFIC TELESIS	14.1	–5.7	43⅜

EEK LAGGARDS	% change 4-week	% change 52-week	Weakest stock in group	% change 4-week	% change 52-week	Price
AND MOTELS	–25.0	–71.0	MARRIOTT	–35.7	–69.4	11½
EQUIPMENT AND SUPPLIES	–17.2	–42.3	PITNEY BOWES	–21.6	–42.1	29
ITER SOFTWARE AND SERVICES	–16.5	–34.3	ORACLE SYSTEMS	–48.2	–66.9	7⅜
NE TOOLS	–16.2	–39.4	CINCINNATI MILACRON	–20.7	–41.0	11½
CENTER BANKS	–15.8	–49.0	CHASE MANHATTAN	–32.4	–70.0	12

UAL FUNDS

MORNINGSTAR INC

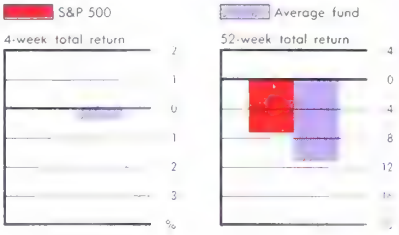
S total return	%
STRATEGIES	13.5
ELECOMMUNICATIONS INCOME	10.0
CIAL STRATEGIC ENERGY	9.4

total return	%
STRATEGIES	64.3
Y SELECT ENERGY SERVICE	46.4
Y SELECT BIOTECHNOLOGY	31.7

LAGGARDS

Four-week total return	%
UNITED SERVICES GOLD SHARES	–13.6
STRATEGIC INVESTMENTS	–13.1
RUSHMORE PRECIOUS METALS INDEX PLUS	–13.0

52-week total return	%
PRUDENT SPECULATOR LEVERAGED	–48.2
STEADMAN OCEANOGRAPHIC TECHNOLOGY	–45.4
WASHINGTON AREA GROWTH	–39.9



TIVE PORTFOLIOS

DATA RESOURCES INC.

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Gold	Money market fund	Treasury bonds	U. S. stocks	Foreign stocks
$11,065	**$10,698**	**$9,833**	**$9,005**	**$7,804**
+4.60%	+0.14%	–1.00%	–3.25%	–7.45%

this page are as of market close Wednesday, Sept. 26, 1990, unless otherwise indicated. ups include S&P 500 companies only; performance and share prices are as of market close

Sept. 25 Mutual fund returns are as of Sept. 21. Relative portfolios are valued as of Sept. 25. A more detailed explanation of this page is available on request.

THE BANKS NEED CAPITAL, NOT A SECURITY BLANKET

The U. S. banking industry has seen its future, and it is the thrift debacle. Now, with Chase Manhattan, the nation's third-largest bank, embarrassed by a series of management mistakes that will haunt it for years to come, regulators, Congress, and the banking industry need to face facts fast.

It now seems inevitable that the barrier between commercial and investment banking is going to break down, given the Federal Reserve's decision to allow J. P. Morgan to underwrite securities. And interstate banking, which already is in effect in limited areas, probably will go nationwide soon.

To ensure that commercial banks don't meet the same fate as the thrifts, regulators and Congress must work together to make sure that the managements of the commercial banks don't repeat the same mistakes. Chief among those was the willingness of the thrift managements to bet the bank because their risks were effectively underwritten by the taxpayers.

The deposit insurance system has to be reformed. There should be a cap of $100,000 per person, instead of per account. And regulators should abandon their "too big to fail" policy, under which all depositors in large banks are protected—no matter how much they have on deposit. FDIC Chairman William Seidman is correct to suggest sharply scaling back the FDIC commitment to underwrite pension fund deposits with taxpayer money.

Regulation should focus on bolstering the private capital at risk in the banking system. The ratio of capital to assets should be higher. The greater the risks a bank wants to take, the higher should be its capital ratios. Obviously, the regulators should be empowered to exact stiff penalties from managements and banks that fail to meet the required ratios, including demanding that dividends be cut in order to bolster capital, or that management resign. Banking is a business like any other, and its managers should take risks, but the pain of mistakes should be borne by private capital, not by the federal deposit insurance program.

FREE TRADE WITH MEXICO MEANS OIL, TOO

By underscoring once again the U. S. need for secure oil supplies, the Persian Gulf crisis has strengthened the already compelling arguments for a free-trade agreement with Mexico. Congress should give President Bush speedy authorization, which he requested on Sept. 26, to start negotiations on such a pact.

A free-trade accord will bolster the economies of both countries by spurring investment in Mexico and expanding the market for goods moving both ways across the 2,000-mile U. S.-Mexican border. It also will provide a timely framework for removing political and financial obstacle an expansion of U. S.-Mexican energy links.

Mexico is a major oil producer with the potential to b both its oil output, currently 2.6 million barrels a day, an exports to the U. S. This potential is hobbled, however, constitutional bar that has excluded private enterprise, M can or foreign, from oil exploration and production since Mexico nationalized oil companies, mostly Ameri owned, in 1938. By contrast, other countries have long s attracted foreign investment and knowhow by such m as contracts between national oil monopolies and for companies that assume the exploration risks.

Now, U. S.-Mexican trade talks will give President Ca Salinas de Gortari the best opportunity in 50 years to n lize political support to remove the straitjacket from M co's oil industry—as he did recently for the Mexican ban industry by winning repeal of another constitutional ba private ownership.

COMPUTER HIGHWAYS NEED A TRAFFIC COP

America is getting wired. During the 1980s, we sa explosion of inexpensive computers radically cha the way we do business. Now, the rush is o string those millions of machines together. The resu computer networks promise to deliver torrents of v data, and video traffic wherever and whenever informa is needed.

The trouble is, we're slapping these digital streets highways into place before anyone has figured out the r of the road. There exists no standard way to manage bi even not-so-big information networks—to keep track o actly what's attached to them and monitor their ever-ch ing traffic patterns. Only in such a way can a comp network containing 100,000 devices—a not uncommon n ber—be kept useful and efficient.

A few network management schemes do exist, prov mainly by large, dominant suppliers. But customers they're eager to keep their computer networks open t kinds of equipment—not just those supplied by one co ny. That way, they can acquire any new computer accor to the local processing job it must handle, not just fo ability to plug into a network whose interfaces are d mined by some far-off computer.

It's time computer and communications suppliers go gether on a workable standard for managing network fact, several group efforts to hammer out such stand have been moving with remarkable speed. But too r standards may turn out to be worse than none. Cle some additional prodding by customers, via their walle much as their vocal chords, will help. As Bud Hub network executive at General Motors' Hughes Aircraft sion and chairman of the User Alliance for Open Syst puts it: "The one option that we don't have is to do not because we have to turn around the productivity sli North America." Open network management would be step toward that goal.

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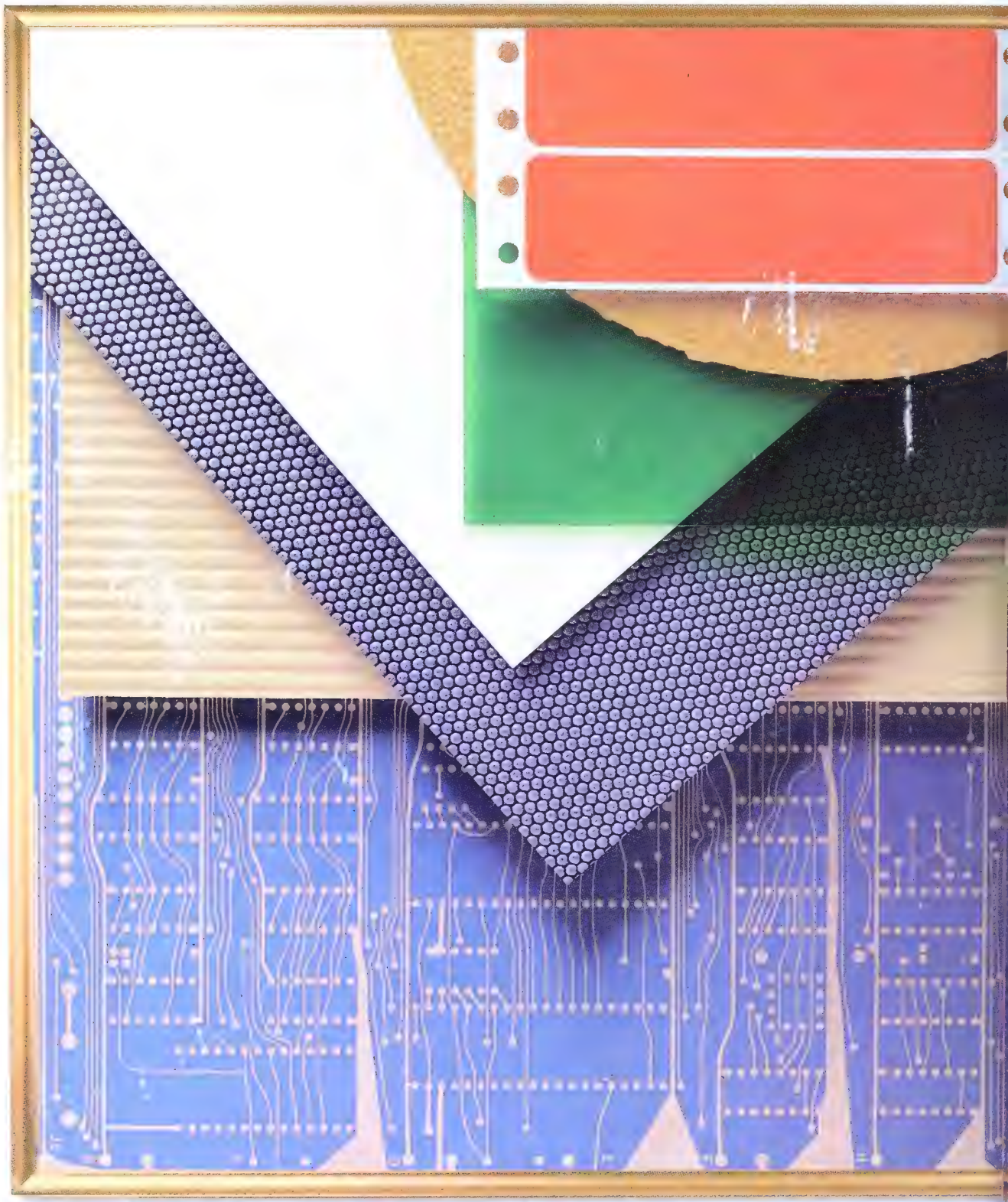

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APPLE COMPUTER

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New Team, New Strategy

With sales stalled and market share slipping, Apple is making big changes: lower prices, new models, and ...ly a successor Macintosh.

PAGE 86

CEO John Sculley (right) and new No. 2 Michael Spindler

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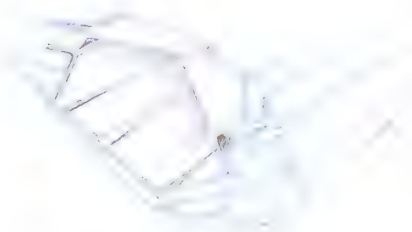
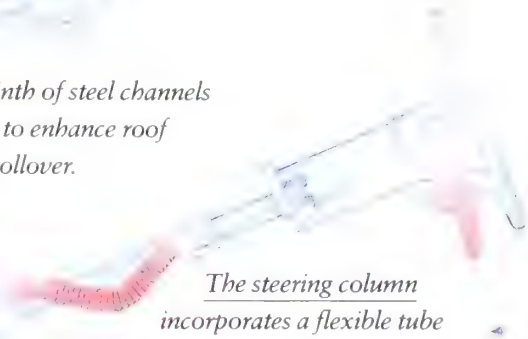
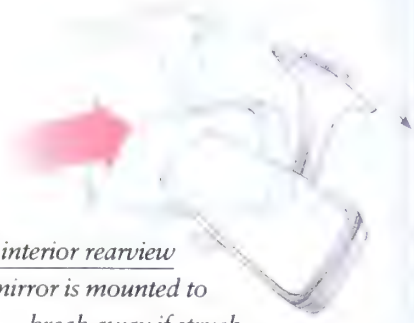


The exterior door handle is not a styled flap but a sturdy grip. Its looped shape is meant to permit maximum pulling force should rescue assistance ever be needed.

This sectional cutaway shows the intricate labyrinth of steel channels and box shapes designed to enhance roof rigidity in the event of a rollover.



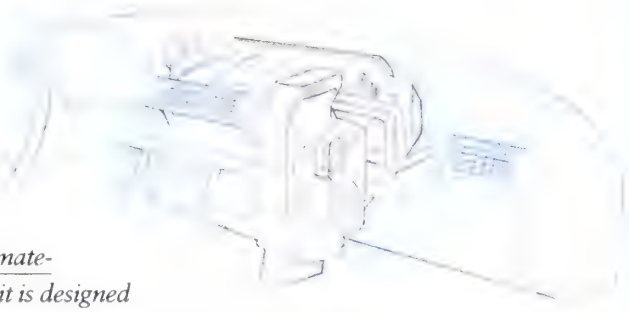
The steering column incorporates a flexible tube designed to deform under the force of a frontal impact, limiting the risk of excessive rearward or upward displacement.



The interior rearview mirror is mounted to break away if struck with moderate force.

A Supplemental Restraint System (SRS) with driver-side air bag has been standard in every Mercedes-Benz since 1985. On many models, the system now includes both driver and front passenger air bags.

The frontal structure is designed to absorb and channel kinetic energy not only in head-on but also offset frontal impacts—more frequent and more severe. Mercedes-Benz pioneered both the basic energy-absorbing body concept and this offset enhancement.

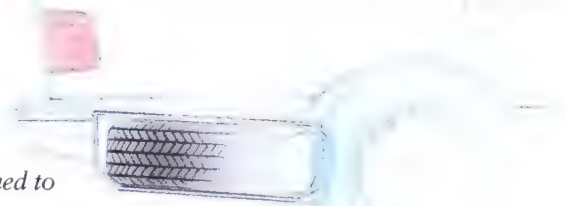


The climate-control unit is designed to be crushable in a severe impact, minimizing the risk of its being pushed rearward into the passenger area.

Like every interior control and lever, this recessed headlight-control switch is designed and shaped and placed to help reduce the chance of occupant injury in a severe impact.

© 1990 Mercedes-Benz of N. A., Inc., Montvale, NJ

Forward occupant movement in certain impacts is limited by emergency tensioning retractors, designed to tighten slack in both front seat belts within milliseconds of such an impact.



The spare tire's placement is designed to add extra energy absorption in case of a severe rear impact.

A crash course in Mercedes-Benz

A wedge-shaped seat insert and a padded knee bolster on the instrument panel's lower edge combine to help prevent front occupants from "submarining" under their seat belts in a severe frontal impact.

An aluminum sheet is inserted among the layers of wood on critical dashboard areas to help prevent splintering under the force of a direct impact.

Recognizing the importance of keeping occupants inside the car in a severe impact, Mercedes-Benz places extreme importance on door-lock design. This cone-type lock was patented in 1959 and has since been steadily refined.

The most effective single safety element is still the seat belt. So please, buckle up—even if you drive a Mercedes-Benz. For more information about Mercedes-Benz safety, call 1-800-243-9292 or visit your authorized Mercedes-Benz dealer. Some of the safety features depicted vary from model to model.

ENGINEERED LIKE NO OTHER CAR IN THE WORLD

We'd like to uncover a hidden natural resource.

Did you know that the empty plastic soft drink bottles you throw away every day can be transformed into carpet yarn or automotive parts or fiberfill for ski parkas?

That used glass bottles and aluminum cans can be transformed into new ones?

And that yesterday's newspaper can be transformed into tomorrow's?

It all happens because of recycling. The trash we throw away is a "natural resource" that, with recycling, can be used to produce a multitude of new products.

Unfortunately, America recycles only 10% of its garbage, incinerates 10% and deposits a whopping 80% in landfills. As a result, we are having to cope with a monumental solid waste problem.

Our landfills are going–going–gone.

Americans throw away about 160 million tons of garbage a year. According to a recent study, plastics make up about 18% of the volume of solid waste in our landfills, paper and paperboard account for about 38%; metals, 14%; glass, 2%; and other wastes, 28%, all by volume.

As a result, in the past 10 years our country's landfills have decreased from about 18,500 to 6,000. In five years 2,000 more will close.

In their haste to find solutions, some local legislatures have proposed to ban plastics.

Unfortunately, a ban on plastics would do much harm and no good. We would lose all of the safety, health and convenience features of plastics, such as tamper-resistant closures and shatter-proof bottles.

Moreover, packaging would still be needed. A 1987 study showed what would happen if plastics were banned—the energy needed to produce the alternative packaging, its weight, its cost, and the volume of waste collected would all rise dramatically.

What to do?

At Amoco Chemical, we believe part of the answer to America's waste problem lies in recycling everything from glass to metals to paper to plastic.

Today, recycling is on the rise. There are now more than 1,000 curbside separation recycling programs across the country. Many are beginning to incorporate plastics.

Right now, almost 200 companies are recycling millions of used plastic containers into paint brush bristles, traffic signs, toys, floor tiles, wastebaskets and "plastic lumber" for decks and park benches.

Plastics are among the easiest materials to recycle. More than 150 million pounds, or 20% of all plastic soft drink bottles, were recycled in 1987.

How Amoco Chemical is helping.

Amoco Chemical is sponsoring a recycling program in New York demonstrating that used, polystyrene foam food service containers from schools and restaurants can be recycled into insulation board for commercial construction, cafeteria trays and home and office products.

We're participating in a consortium with other major plastics manufacturers involved in the construction of regional polystyrene recycling plants.

We're encouraging the start-up of new recycling efforts, helping to find better ways to collect and sort recyclables, and supporting efforts to create new markets for products made from recycled products.

At Amoco Chemical, we believe recycling can add years of life to our landfills while it transforms things that would ordinarily be thrown away into useful new products. We've only begun to uncover its benefits.

For a free copy of "Recycling. Do It Today For Tomorrow," call 1-800-727-0017. Or write Amoco Chemical, Recycling, 200 East Randolph Drive, Chicago, IL 60601.

Recycling. Do It Today For Tomorrow.

AMOCO

Amoco Chemical

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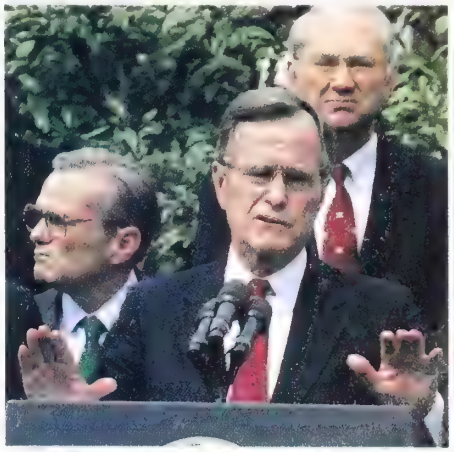

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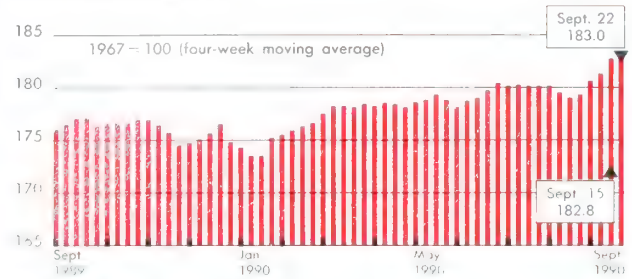
BusinessWeek Index

PRODUCTION

Change from last week
Change from last year

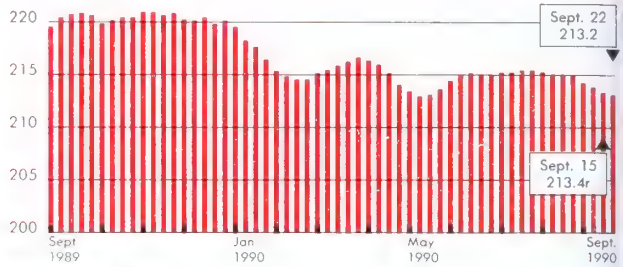


The production index rose slightly in the week ended Sept. 22. After seasonal adjustment, auto and truck production rose, as did output of lumber, coal, and paperboard. Production at electric utilities dropped steeply, while rail-freight traffic and paper output posted small declines. Steel production and crude-oil refining were unchanged. Before calculation of the four-week average, the index fell sharply to 181.2 from 184.4 in the previous week.

BW production index copyright 1990 by McGraw Hill, Inc.

LEADING

Change from last week: –0.1%
Change from last year: –3.5%



The leading index declined in the week ended Sept. 22, continuing its downtrend of the past year. Stock prices fell, and bond yields rose. Initial claims for unemployment insurance climbed higher, while real estate loans and the M2 money supply grew more slowly. On the plus side, business failures fell, and materials prices grew faster. Before calculation of the four-week average, the leading index was unchanged from the previous week, at 213.5.

Leading index copyright 1990 by Center for International Business Cycle Research

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
STEEL (9/29) thous. of net tons	1,878	1,883 #	5.1
AUTOS (9/29) units	137,288	148,232r #	–9.2
TRUCKS (9/29) units	83,750	86,770r #	7.7
ELECTRIC POWER (9/29) millions of kilowatt-hours	53,028	55,464 #	6.1
CRUDE-OIL REFINING (9/29) thous. of bbl./day	13,962	14,262 #	1.4
COAL (9/22) thous. of net tons	21,517 #	21,371	8.3
PAPERBOARD (9/22) thous. of tons	757.5 #	753.2r	3.7
PAPER (9/22) thous. of tons	752.0 #	750.0r	1.6
LUMBER (9/22) millions of ft	495.9 #	461.6	–7.2
RAIL FREIGHT (9/22) billions of ton-miles	21.3 #	21.5	7.6

Sources: American Iron & Steel Inst., *Ward's Automotive Reports*, Edison Electric Inst., American Petroleum Inst., Energy Dept., American Paper Inst., WWPA[1], SFPA[2], Association of American Railroads.

FOREIGN EXCHANGE

	Latest week	Week ago	Year ago
JAPANESE YEN (10/3)	137	137	143
GERMAN MARK (10/3)	1.55	1.57	1.89
BRITISH POUND (10/3)	1.89	1.87	1.60
FRENCH FRANC (10/3)	5.19	5.26	6.41
CANADIAN DOLLAR (10/3)	1.15	1.15	1.18
SWISS FRANC (10/3)	1.28	1.31	1.64
MEXICAN PESO (10/3)[3]	2,895	2,894	2,578

Sources: Major New York banks. Currencies expressed in units per U. S. dollar, except for British pound expressed in dollars.

PRICES

	Latest week	Week ago	% Change year ago
GOLD (10/3) $/troy oz.	389.400	402.700	6.4
STEEL SCRAP (10/2) # 1 heavy, $/ton	110.50	115.50	6.3
FOODSTUFFS (10/1) index, 1967 = 100	213.9	217.7	–0.1
COPPER (9/29) ¢/lb.	131.7	133.4	–4.0
ALUMINUM (9/29) ¢/lb.	88.5	93.5	11.6
WHEAT (9/29) # 2 hard, $/bu.	2.85	2.82	–31.7
COTTON (9/29) strict low middling 1-1/16 in., ¢/lb.	69.79	70.84	2.7

Sources: London Wed. final setting, Chicago mkt., Commodity Research Bureau, *Metals Week*, Kansas City mkt., Memphis mkt.

LEADING INDICATORS

	Latest week	Week ago	% Chang year ag
STOCK PRICES (9/28) S&P 500	304.83	315.15	–12.(
CORPORATE BOND YIELD, Aaa (9/28)	9.63%	9.51%	6.(
INDUSTRIAL MATERIALS PRICES (9/28)	108.3	107.7	1.8
BUSINESS FAILURES (9/21)	296	316r	26.3
REAL ESTATE LOANS (9/19) billions	$381.1	$380.6	9.4
MONEY SUPPLY, M2 (9/17) billions	$3,320.7	$3,317.7r	5.3
INITIAL CLAIMS, UNEMPLOYMENT (9/15) thous.	403	382	26.3

Sources: Standard & Poor's, Moody's, *Journal of Commerce* (index: 1980 = 100), Dun & Bradstreet (failures of large companies), Federal Reserve Board, Labor Dept. CIBCR seasonally adjusts data on business failures and real estate loans.

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Chang year ag
MANUFACTURERS' INVENTORIES (Aug.) billions	$373.9	$373.3	0.7
MANUFACTURING SHIPMENTS (Aug.) billions	$245.9	$237.8r	3.2
NEW HOME SALES (Aug.) annual rate, thous.	550	558r	–23.5
12 LEADING INDICATORS COMPOSITE (Aug.) index	144.2	146.0r	–0.4

Sources: Commerce Dept.

MONETARY INDICATORS

	Latest week	Week ago	% Chang year ag
MONEY SUPPLY, M1 (9/17)	$820.7	$820.7r	5.2
BANKS' BUSINESS LOANS (9/19)	318.4	317.3r	–0.3
FREE RESERVES (9/19)	81r	277r	–90.7
NONFINANCIAL COMMERCIAL PAPER (9/19)	155.1	148.8	19.1

Sources: Federal Reserve Board (in billions, except for free reserves, which are expressed for a two-week period in millions).

MONEY MARKET RATES

	Latest week	Week ago	Year ago
FEDERAL FUNDS (10/2)	8.32%	8.35%	9.18%
PRIME (10/3)	10.00	10.00	10.50
COMMERCIAL PAPER 3-MONTH (10/2)	7.95	8.14	8.83
CERTIFICATES OF DEPOSIT 3-MONTH (10/3)	8.03	8.30	8.91
EURODOLLAR 3-MONTH (9/26)	8.28	8.09	8.86

Sources: Federal Reserve Board, First Boston

= Raw data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment
. Western Wood Products Assn. 2 = Southern Forest Products Assn. 3 = Free market value NA = Not available r = revised NM = Not meaningful

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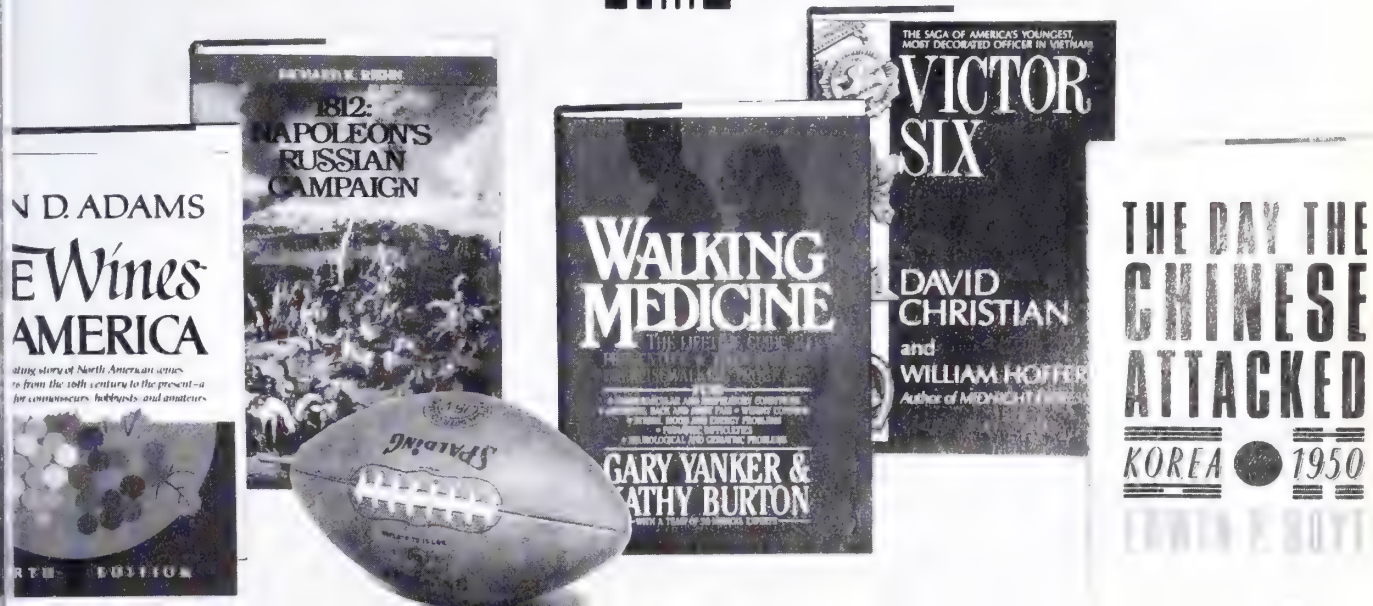

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Readers Report

TO DIVVY UP DISTRICTS, WHY DEPEND ON SEX AND RACE?

Your article "Money, power, and numbers: A firestorm over the census" (Washington Outlook, Sept. 17) says of the U. S. census: "One idea is to ask all citizens for only the minimum information needed for reapportionment—age, sex, and race." Why are sex and race needed for reapportionment?

Frederick M. Uleman
Tokyo

The suggestion for a stripped-down census count illustrates a misconception of what information really is required to meet the constitutional mandate. What possible reason is there to ask citizens their sex and race to produce the minimum information needed for reapportionment?

As for businesses that rely on pinpoint marketing information provided by the census, let them howl away. If they need such information, let them pay for their own marketing surveys instead of relying on taxpayers' generosity.

Don Ringler, General Partner
Creative Media Services
Watervliet, Mich.

Editor's note: Information about sex is not required by law. The 1965 Voting Rights Act does demand that the racial composition of a district be considered in reapportionment to enhance minority representation.

WHEN FEMALE BOSSES AREN'T WOMAN-FRIENDLY

Regarding Lilly Hirsch's letter ("What really makes a company 'woman-friendly,'" Readers Report, Sept. 17), she states: "The worst companies for women . . . fan the resentment some women have toward more successful or able women." The main thing that fans resentment is the attitude of many female executives toward women on the lower rungs of the corporate structure—clerks, administrative assistants, and secretaries. I have been on the receiving end of more rudeness, condescension, and patronizing putdowns from female executives than I ever have from any my male bosses and co-workers. W one exception (and I've been worki since 1954), my bosses have all been e couraging and supportive. The boss wh on the surface, was the most chauvin tic was the one who encouraged me take advantage of the company's tuitio refund program, which enabled me to to college and get my degree.

As someone once said, if women wa to act like men, fine—but why can't th act like nice men?

Joan L. Byrne, Assistant Treasur
Griggs & Santow In
New Yo

WARS AND RUMORS OF WARS DIDN'T HURT MAGGIE

The 'year of the woman'? Well, ma be" Government, Oct. 1) quotes G linda Lake as saying, "The worst thi that could happen to a woman candida is a military crisis."

Perhaps she would like to study t popularity ratings of our own Margar Thatcher following the Falklands Wa and more recently, the gulf crisis.

I wonder if this suggests somethi about British men or American wome

Peter Faulkn
Lond

MAYBE THE WEAPONS LABS ARE JUST THE RIGHT SIZE

I do not believe that you recognize t tremendous changes occurring at t Energy Dept. defense laboratories ("I time to shrink the weapons labs," Edi rials, Sept. 17).

The technology transfer bills enact in 1980 and 1986 that govern most fede al tech-transfer activities specifically e cluded the weapons labs from particip ing, primarily because such transfe were regarded as a potential securi problem. It was not until Congre passed the National Competitivene Technology Transfer Act of 1989 th technology transfer became a core m sion of the Energy Dept.'s defen labs—and for the first time, effecti mechanisms were provided for transfe ring technology to the private sector.

At a time when the overlap betwe

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itical defense and commercial technol-ies is rapidly increasing, the weapons bs should not be shunted off into an er narrower military mission. Instead, e labs' work in dual-use technology ould be used to bolster our economic mpetitiveness and meet our environ-ental and educational challenges.

Senator Jeff Bingaman
(D-N. M.)
Washington

he Energy Dept.'s national laborato-ries are proving to be a treasure that ay help U. S. industry remain techni-lly strong in global competition.

A case in point is the recently discov-ed field of high-temperature supercon-ctivity that has spawned intensive search and development activity in in-strialized countries, particularly Ja-n. This poses a crucial test of Ameri-'s ability to demonstrate technical and lustrial leadership.

Responding to this challenge, Energy signated three of its national laborato-s—Los Alamos, Oak Ridge, and Ar-nne—as Superconductivity Pilot Cen-s. They were encouraged to forge w links with industry and provide ac-ss to their specialized equipment and ghly skilled scientists. Some 35 compa-s responded, and more than two-thirds report that their collaborative programs are meeting or exceeding expectations. Du Pont is involved with all three of these labs.

The pilot center program is proving that technology transfer can work, that cultural change is taking place, and that government-industry collaboration can help keep the U. S. competitive.

Edward J. Mead, Du Pont Co.
Wilmington, Del.

Editor's note: Mead is chairman of the eight-member Industrial Overview Committee that evaluates Energy pilot center programs.

A JAPANESE ANSWER TO AMERICA'S PRAYERS?

Your highly skilled description of "Mighty Mitsubishi" answers essential questions as to why America is an inviting turf for Japanese cartels ("Mighty Mitsubishi is on the move," Cover Story, Sept. 24).

The *keiretsu* system is coming into the life of America. The prayers for a better America by Presidents Carter, Reagan, and Bush have been answered by the gods from Tokyo.

Stuart G. Crane
Yardley, Pa.

ANOTHER EASIER WAY TO GET RID OF GALLSTONES

Your article "Romancing the gallstone" (Science & Technology, Sept. 3) failed to include another gallstone treatment that is currently being prescribed by thousands of physicians nationwide. This oral medication is Actigall (ursodiol), which has been available since October, 1988. For those symptomatic gallstone patients who can't or won't have surgery, Actigall may dissolve cholesterol gallstones less than 20mm in diameter. Complete gallstone dissolution may not occur in all patients.

Traditional surgery requires a four-to-six-week recuperation time, and laparoscopic cholecystectomy four to seven days. Both types of surgeries are not without risk.

Arthur Emmett, M. D.
Senior Vice-President
Medical & Public Affairs
CIBA-GEIGY Corp.
Summit, N. J.

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THE AGE OF UNREASON
By Charles Handy
Harvard Business School Press • 278pp • $18.95

'UPSIDE-DOWN THINKING' FOR A TOPSY-TURVY WORLD

Look around you. Your company is shrinking, producing more each year with fewer employees. There's a phone in your car and a fax machine in the study at home. Your spouse pursues a career three days a week. As for you, well, it's not clear just what you'll be doing, or how, in five years.

It's not completely clear to Charles Handy, either. But he does know this: "Things are not going to go on working as they have been working, whether we like it or not." We have entered an era of wrenching, disjunctive change—the Age of Unreason—and "the status quo will no longer be the best way forward."

Handy, an Irish academic, BBC commentator, and student of organizational questions, has produced an eloquent handbook for contemplating, coping with, and capitalizing on this change. It is an oddly gripping exploration of what he calls "upside-down thinking"—thinking that challenges the established order. Applying this perspective, Handy comes up with a fascinating, sometimes unsettling, vision of the future.

In business, Handy detects the emergence of a tripartite "shamrock" corporation. The first leaf is the corporation's core—populated by talented, dedicated professionals who work long hours for high pay. The core, though important, is expensive. So it keeps shrinking, as organizations farm work out to independent contractors—the second leaf—and hire more part-time workers—the third.

Brutally tough global competition forces this change. Technology makes it possible. Personal computers and telephones let us work pretty much where we want. A prototypical shamrock, says Handy, is Britain's little-known but fa growing F. I. Group, which writes co puter programs on contract. Seve percent of its 1,100 workers, most them self-employed contractors, toil home or at local work centers and de er their output electronically to a sm headquarters.

In the shamrock corporation, centr ized decision-making is out, replaced a willingness to give autonomy to tale ed employees in dispersed locations. most jobs will change fundamental Handy likens the evolving job to an " verted doughnut": Only the center, volving work strictly defined by the ganization, is solid. That core is growi smaller. The complexity of business day requires that the space around t center, where workers have freedom a responsibility, become ever broad Teachers and social workers alrea work in this space, determining themselves how to spend their time. O er professions will follow.

For the employee, in fact, everythi will change. A career will encompa just half the time it did a generati ago. Some of us will work longer hou for fewer years, leaving the core at a 45 or 50. Older workers, experienced h

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This lack of structure has
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periences.

The consequences could
wide-ranging. More peo-
working at home could mean less-
igested roads, depressed car sales,
l fewer jobs for office cleaners. More
portantly, as Handy writes, "Half the
ple working twice as hard, while the
er half have not enough to do, is a
rrying prospect." Indeed, he broods
r how societal divisions in such a world would affect the poor and elderly.

Handy tackles these concerns with more upside-down thinking. To improve education, he proposes "shamrock schools" offering a core curriculum plus specialized classes taught by outside contractors. He advocates regular government stipends, scaled to other income, for all citizens, and replacing income taxes with a higher, more easily administered, sales tax. That's not so farfetched: A sales tax cushioned by stipends need not shortchange the poor. And as Handy admits, his ideas represent less a concrete prospectus than a spark to get us thinking.

They did that for me. Although lessons on organizational management involving "shamrocks" and "doughnuts" may sound off-putting, they're not. Handy's stylish prose, salted with anecdotes and the odd British-ism, is captivating. Since reading his book, I've found myself considering my own career, and responding to friends' concerns about theirs, using Handy's concepts. *The Age of Unreason*, says Handy, is written "for those who live in the midst of change and do not notice it or want it." Which is most of us, really: We see increasing evidence of a world out of whack—growing hunger, environmental crises, economic dislocation—yet we resist contemplating solutions that

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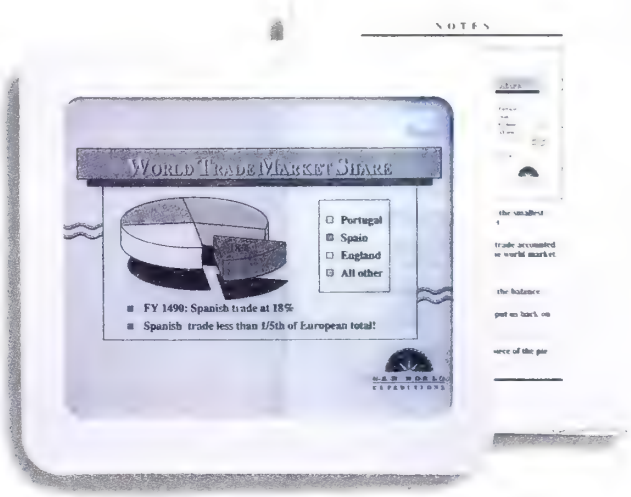

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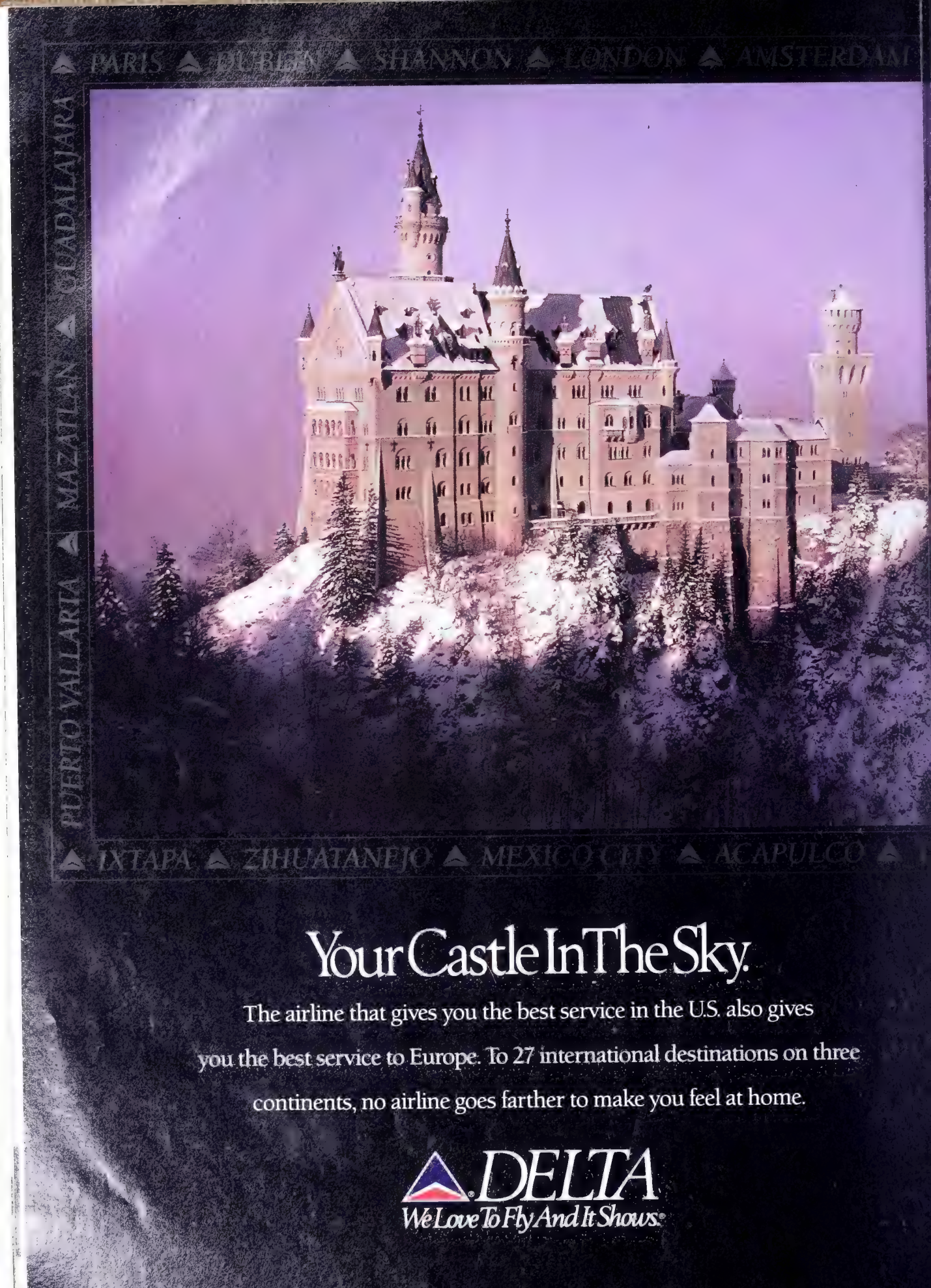

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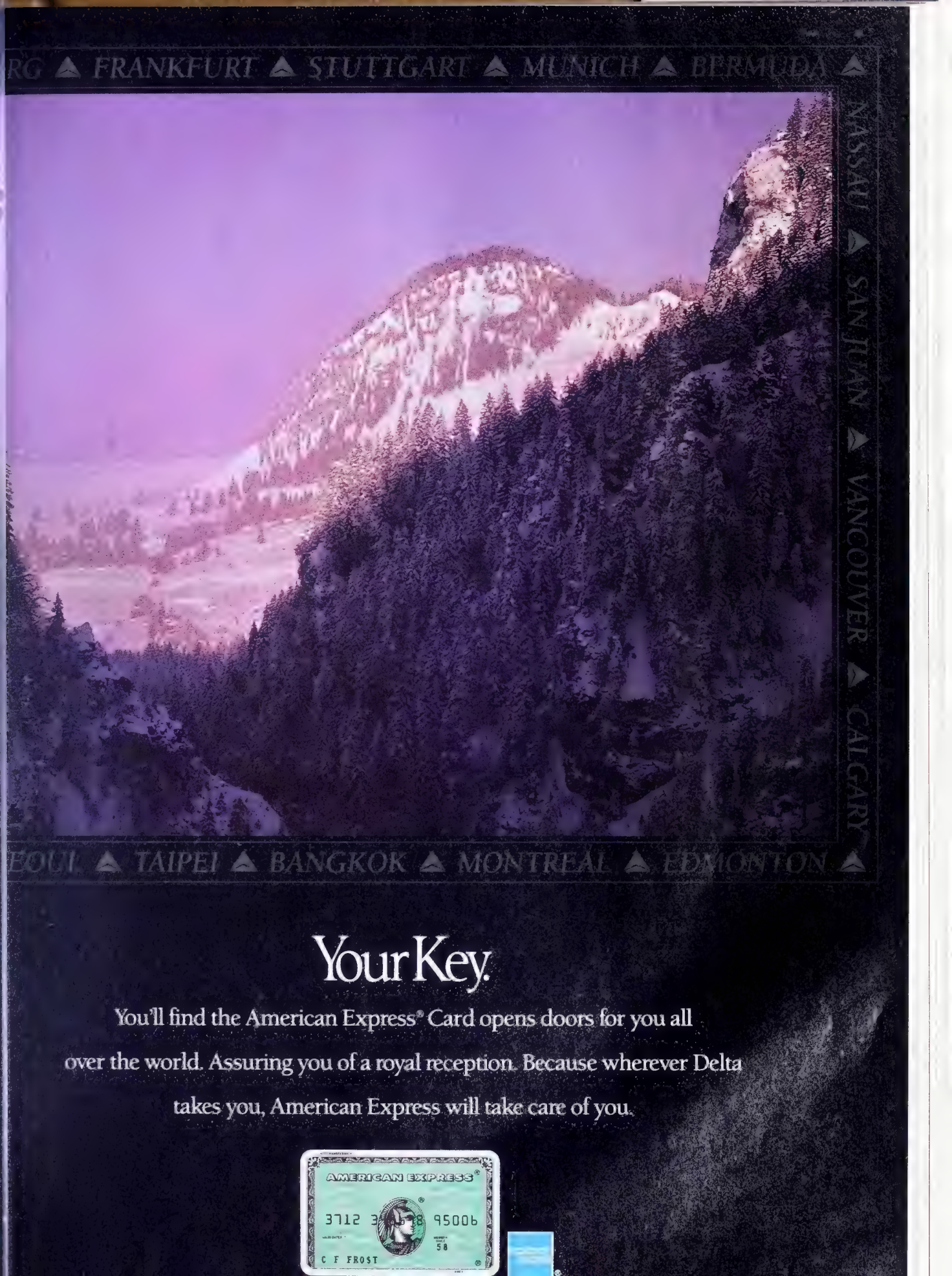
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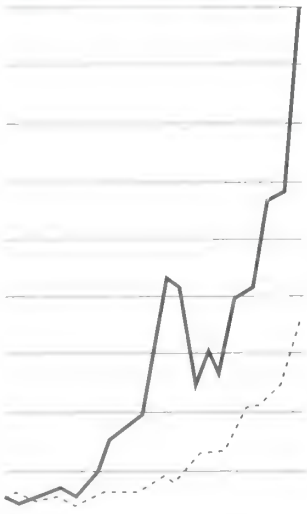

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BY KEITH H. HAMMOND

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HE TOLD YOU SO

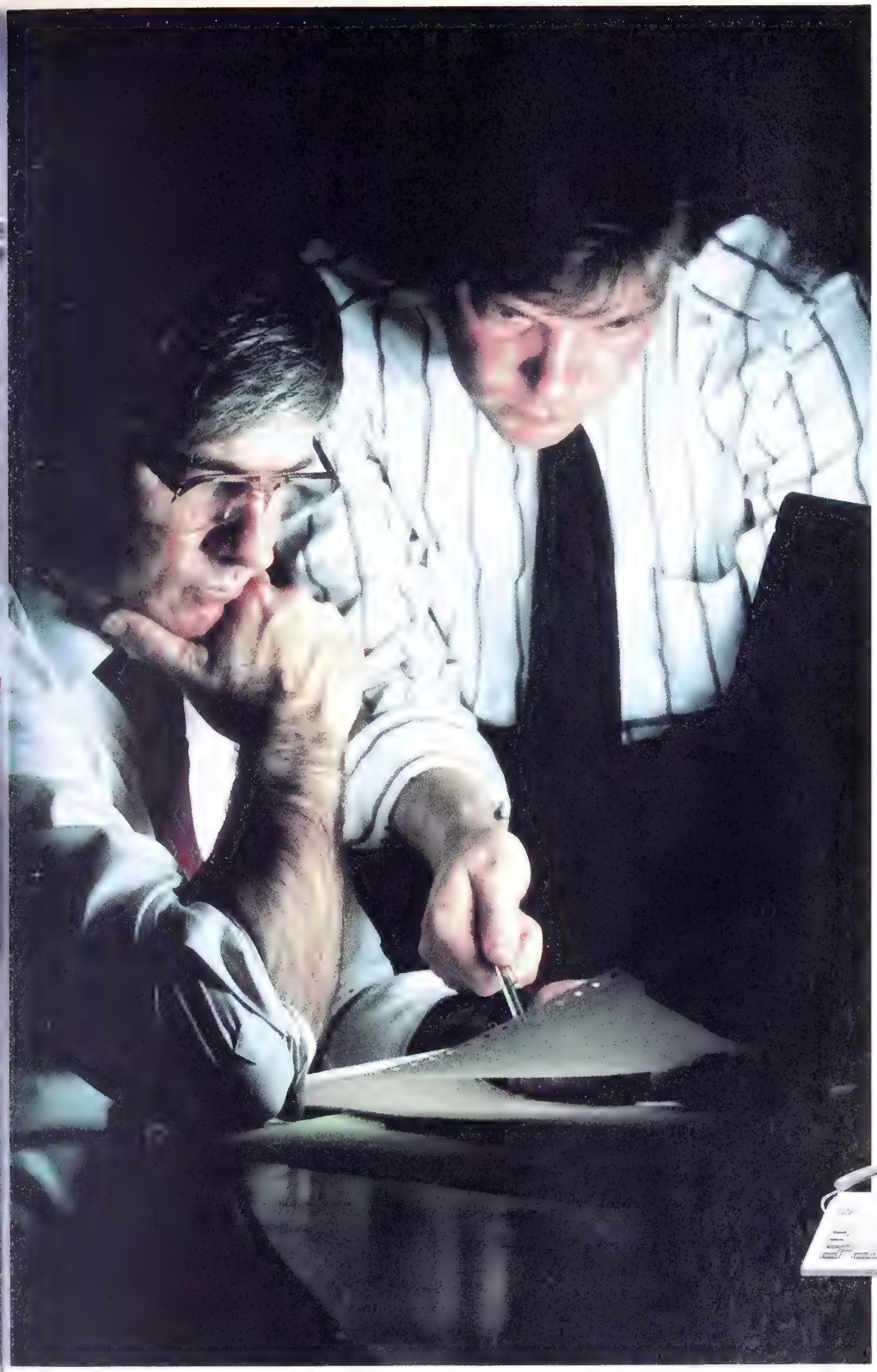
MELTDOWN: INSIDE THE SOVIET ECONOMY
By Paul Craig Roberts and Karen LaFollette
Cato • 152pp • $19.95

To be proven right in your own tim is sweet. "The result of decades efforts at central planning ha been to establish that for a modern eco omy, there is no viable alternative to th market," wrote Paul Craig Roberts 1971's *Alienation and the Soviet Eco omy*. Then, few agreed: The Sovi Union's manufacturing output was su posedly rising almost 9% annually, an its rapid industrialization was envied by underdeveloped countries. Now, it's clear those numbers involved more hot air than cold steel.

This fall, publisher Holmes & Meier will underscore Roberts' prescience by issuing a revised edition of *Alienation*. In addition, BUSINESS WEEK columnist Roberts, with Karen LaFo lette, explores the same theme in a ne book, *Meltdown: Inside the Sovie Economy*. Drawing mainly on recent S viet press items, they cite countless e amples of the Soviet economy's irrati nality—factories that don't work products no one wants, a lack of housin and medical care. The diet of America urban homeless, they say, compares fa vorably with the basic Soviet diet.

The authors emphasize that Sovie managers act in their own interests, n society's or even the party's. Centra planning provides perverse incentive Factories can get bonuses for exceedin quotas, which induces drugmakers, fo example, to produce "medicine" that little more than sugar or salt and wate

Roberts and LaFollette see the Sovie system as a source of moral breakdow Bribes and black markets, they writ are the norm. Used to stealing fro state companies, people feel free to ste from private ones, which complicates th move to free markets. But the author conclude optimistically that the party' consent to its demise shows that "goo will can prevail over material interest.'



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ONE BIG, HAPPY GLOBAL ECONOMY? NOT YET, FRIEND

BY ROBERT KUTTNER

Although Honda is busy working in Ohio and IBM is in Japan, companies around the world still operate with their national interests in mind. America take note: The vision of the stateless corporation remains just that—a vision

ROBERT KUTTNER IS ECONOMICS CORRESPONDENT FOR *THE NEW REPUBLIC* AND AUTHOR OF *THE LIFE OF THE PARTY*

As the economy becomes a global one, how do we define a national interest? Seemingly, the economy is so globalized that the national identity of companies no longer matters. Kenichi Ohmae argues in his latest book, *The Borderless World*, that in this new era, "trade statistics are meaningless." Ohmae asks rhetorically: "Is IBM Japan an American company? . . . Or what about Honda's operation in Ohio?" Ohmae's views lead to a fairly conservative set of conclusions: Don't worry about Japan's mercantilism, and ". . . throw the bureaucrats out."

In a *Harvard Business Review* article titled "Who is Us?," Robert Reich takes the same insight in a more liberal direction. Americans used to scoff at "What's good for General Motors is good for the country." But by wrapping the national interest in the interest of a U. S.-based corporation, some advocates of "national competitiveness" fall into precisely the same trap. "Who is us?" Reich asks. "Is it IBM, Motorola, Whirlpool, and General Motors? Or is it Sony, Thomson, Philips, and Honda?" Reich points out that U. S. corporations often produce overseas, while foreign corporations often produce in the U. S. Texas Instruments does most of its production abroad, while the biggest "American" manufacturers of TVs are Philips (Dutch) and Thomson (French).

Reich concludes that "American competitiveness can best be defined as the capacity of Americans to add value to the world economy" regardless of the nationality of the company that employs them. "The interests of American-owned companies may or may not coincide with those of the American people." His policy recommendations call for increased investment in education, training, research, and infrastructure, so that America becomes "a good place for any global corporation seeking talented workers to set up shop."

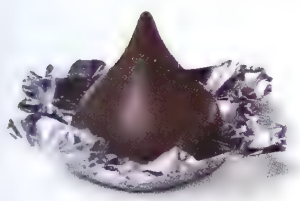
LOOK HOMEWARD. These arguments are extremely seductive and irrefutable as far as they go. However, Ohmae's picture of a seamless, stateless global economy leaves out a few awkward details. In reality, many governments do precisely what Ohmae and Reich deplore. Namely, they identify the national interest with the self-interest of home-based corporations. The American economist Mordechai Kreinin, in a study of 62 Japanese, European, and U. S. corporations doing business in Australia, found that all of the U. S. subsidiaries and most of the European ones purchased capital goods from suppliers all over the world by putting out bids. Most of the Japanese companies bought only Japanese. Although Ohmae's book is full of examples of U. S.-owned companies happil doing business in Japan, he glosses ove the fact that Japanese mercantilism o ten demands technology transfer, licen ing, local content, and joint-ventur deals favorable to the Japanese as a pr condition for entering Japan at all. It i no accident that most goods sold b "American" companies operating in Ja pan are made in Japan. That occurre not because the U. S. parent compan necessarily wanted it that way, but be cause the Japanese insisted on it.

The picture of stateless, globalize corporations, with operations, shareholc ers, and managers all over the worl largely indifferent to location except o grounds of economic efficiency, is i some sense emergent—but premature Most Japanese companies—and the Mi istry of International Trade & Indus try—still think in terms of benefitin Japan. Alain Gomez, the aggressive CE of Thomson, indeed has far-flung globa operations, but he thinks in terms o what's good for France. The implicatio of the borderless world/stateless corpo ration view is that it doesn't matter i U. S.-based companies are driven out b other people's mercantilism as long a other people invest here. This is, o course, exactly the point of Ohmae' soothing reassurances.

SKILLS NEEDED. As Andrew Grove, CE of Intel, points out, Japanese companie design ultrahigh-technology product that can be assembled largely by unedu cated young Asian women. The heart o the operation, however, stays in Japan— manufacturing expertise, financial pow er, scientific knowledge, engineering an marketing talent, and the flow of profit to capitalize the next round of innova tion. If U. S.-based high-technology com panies are simply driven out of busines by the mercantilism of other nations, w will gradually assume the position o those low-wage East Asian women.

Reich has framed the dilemma aptly how to define the national interest in a newly globalized economy. American prosperity will depend primarily on the skills of its workers and managers quite apart from the nominal flag of its corpo rations. And he's right that our alle giance to a GM or a TI should be condi tional rather than merely patriotic—jus as our embrace of the Hondas and the Thomsons should be based on what they bring to America. Yet it is hard to imag ine a strong U. S. economy withou U. S.-owned and -managed companies To that end, we need a more realistic policy on trade, technology transfer, and market access. If "they" keep playing by different, more nationalistic, rules to the detriment of U. S.-owned companies "we" will soon be out of business. ■

THIS YEAR, WE'RE UNWRAPPING SUITES BY THE DOZEN.



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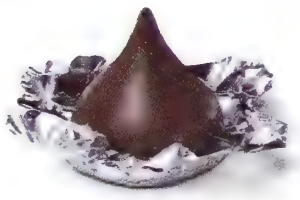

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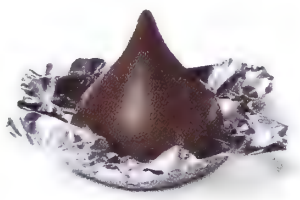

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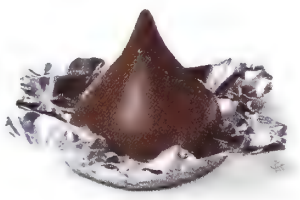

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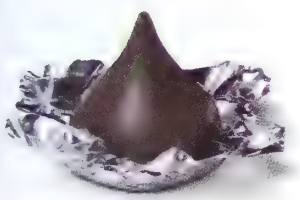
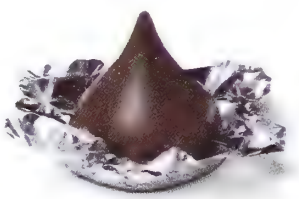


Brea, CA
Opening October 1990



New York City
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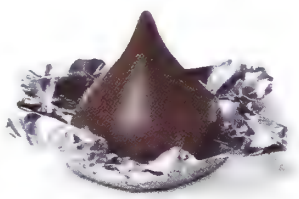

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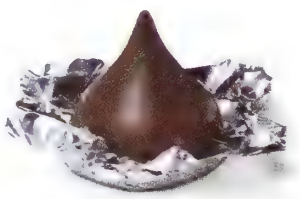

Syracuse
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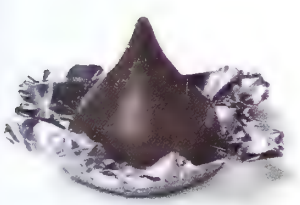

Washington, D.C.-
Chevy Chase Pavilion
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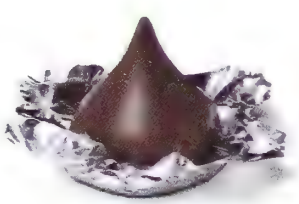

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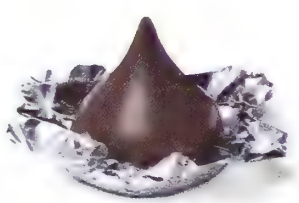

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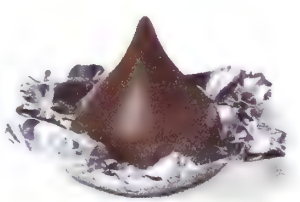
International Airport
Opening November 1990



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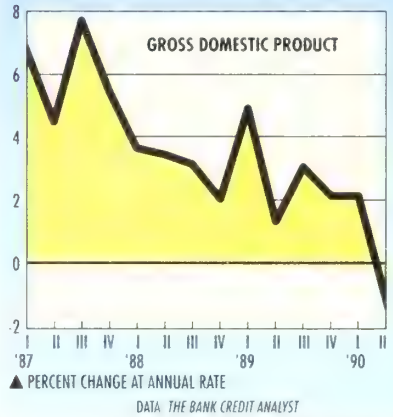
BY GENE KORETZ

THIS TIME, CANADA GOT THE BLUES BEFORE THE U.S.

When the U.S. economy sneezes, the Canadian economy catches pneumonia. So goes an old cliché, and in light of the close linkage between the two economies and the mammoth size of the U.S. economy, it's hardly surprising that it has almost invariably proved to be true—until now. "The Canadian economy slipped into a homegrown recession last quarter, reversing the usual relationship in which the U.S. leads and Canada follows," observes economist Martin Barnes of the Montreal-based *Bank Credit Analyst.*

CANADA'S ECONOMY HAS SLIPPED INTO RECESSION



DATA: *THE BANK CREDIT ANALYST*

The major cause of the Canadian downturn has been the determination of the nation's monetary authorities to cool down an overheated economy and tame inflationary expectations. The Bank of Canada has been stepping on the monetary brakes since the beginning of last year, pushing short-term interest rates higher than 13% before easing slightly recently. By the second quarter of this year, Canada's economy was declining at a 1.6% annual rate (chart), and observers see few indications that the contraction is ending.

For one thing, the second-quarter decline was broad-based, involving all the major components of domestic demand. Machinery and equipment spending fell at a 17.9% annual rate, residential construction plummeted at a 15% pace, and consumption declined at a 1.5% annual clip—the first such drop since the 1982 recession. Meanwhile, the government's composite index of leading indicators has fallen for six months in a row, business bankruptcies are soaring, and unemployment has climbed by 0.8% in just two months, to 8.3% in August. Although higher oil prices will help Canada's energy exports, their main effect will be to boost inflation and cut into disposable income.

Now, Canada's problems should start affecting the weakening U.S economy. "Thus far," notes economist Lawrence Krohn of Shearson Lehman Brothers Inc., "the U.S. has been largely insulated from Canada's economic woes because high interest rates strengthened the Canadian dollar and thus increased the competitiveness of U.S. products in Canadian markets." But the decline in Canada's domestic demand will soon start to outweigh this price effect, he predicts. And since Canada is Uncle Sam's most important customer, accounting for more than 22% of U.S. exports, that will only increase the odds of a U.S. recession.

That's not the end of the story. Barnes points out that 75% of Canadian exports go to the U.S. "So if Canada's problems help tip the U.S. into recession, its own downturn will inevitably be that much more severe."

IS AN 'ANGLO-SAXON' RECESSION ON THE HORIZON?

Barring an outbreak of war in the Middle East that blasts oil prices into the stratosphere, most economists reject the notion that the 1990 oil price shock could result in a global recession such as the one that occurred in the mid-1970s. The world economy is less dependent on oil than it was in past episodes, they note, and current economic cycles are more out of sync. But the chances of what some observers term an "Anglo-Saxon" recession seem to be increasing.

For one thing, Canada is not the only English-speaking nation (officially, of course, it's bilingual) that is apparently already afflicted by recession. The Australian economy also contracted in the second quarter of this year—at a 3.6% annual rate. Economists at Salomon Brothers Inc. point out that domestic demand posted its sharpest quarterly drop in 15 years.

Meanwhile, the consensus among American economists is that the U.S. will enter a recession within the next six months—if one has not already begun. And many observers believe that recessionary risks are rising in Britain, where domestic demand is wilting under the impact of a yearlong siege of 15% interest rates.

REAL ESTATE COULD DRAG MANY BANKS INTO A SINKHOLE . . .

Don't assume that the ravaged ho ing and commercial property s tors cannot wreak further damage the economy. Although construction tivity in both areas is so depressed th it seems unlikely to decline much f ther, a drop in asset values caused by severe economic downturn could s rock the financial system.

Indeed, economist Edward E. Yarde of Prudential-Bache Securities In points out that commercial banks he $601 billion in commercial and industr loans and $515 billion in real estate loa at the end of 1986. By yearend 198 however, C&I loans had only risen $618 billion, while real estate loans h soared to $762 billion. "Real estate loa accounted for an astonishing 87% of t growth in the banks' loan portfolios."

Once bitten, twice shy. At best, t hangover suffered by commercial ban and savings and loan associations aft their recent lending binge suggests th falling interest rates and easier mon are unlikely to foster more than a mo est recovery in housing and commerc construction for a long time to come. worst, it could signal greater tri ahead for the banking system if re estate prices erode much further.

. . . AND LENDERS ARE FEELING SIMILAR TREMORS IN JAPAN

Are Japanese banks headed toward real estate crisis of their own? T chances seem slim, given Tokyo's pe chant for damage control at the fir sign of trouble. Still, economist Toru N kamura of Nakagama & Wallace In notes that the huge runup in real esta prices in recent years is ripe for defl tion. And the Tokyo stock-market cra has undoubtedly hurt those speculato who collateralized bank loans with re estate holdings. Thus, the stock mark plunge and the sharp rise in Japane interest rates suggest that land pric may also start to drop as speculation curtailed.

If such a drop turned into a bust, th big banks would obviously take a h But the biggest losers, says Nakamur would be Japan's numerous leasing an finance companies, which have been m jor players in the real estate investme and development boom.

CTOBER 15, 1990

BY JAMES C. COOPER AND KATHLEEN MADIGAN

'HIS RECESSION IS LIKELY TO BE AROUND FOR A WHILE

Recession is the consensus forecast for the U. S. economy. The burning question now is: How bad? The latest data don't offer much solace, but ances are good that the downturn may turn out to be allow by postwar standards. The bad news is that the in may be drawn out over a long period of time.

The current suffering is easy enough to see. The data even suggest Federal Reserve Board Chairman Alan Greenspan's rigorous definition of recession: a "cumulative unwinding" of economic activity. Demand throughout the economy had already dried up in the second quarter. Then came the oil shock—the hammer blow that many economists had feared.

The latest numbers for August only continued the luge of negative reports since the Mideast crisis. The ading indicators fell a steep 1.2%—the largest drop ice the stock market crash in late 1987. Sales of new e-family houses were down, as was overall spending private construction. And the Conference Board's in- x of help-wanted advertising fell to the lowest level in years (chart).

EVERAL IGNS POINT TO A MILD DIP

What kind of downturn do these data presage? Recessions are typically characterized by three Ds—depth, dispersion, and duration. The lack of many traditional imbalances that have caused the economy to swing wnward so sharply in the past should prevent the wnturn from being deep and widespread (page 30).

Manufacturing, the sector that wields the most cyclical influence in the economy, is in better shape to weather a recession this time. To begin with, factory inventories are very low in relation to sales. In August, stock els rose 0.2%, but shipments were up 3.4%. As a ult, the ratio of inventories to sales fell to 1.52.

That's the lowest ratio in the expansion, and it is by the lowest reading on record heading into a recession. That means a downturn will not cause the same mber of layoffs and production cuts associated with orts to rein in excessive stock levels during past recessions. Factories have already laid off 450,000 workers ce January, 1989, in an effort to keep inventories in e and costs down.

Also, factories now export a record 20% of their output—40% for producers of capital goods. Export growth is bound to slow as the oil shock hits around the world, but growth will continue, buoyed particularly by a cheaper U. S. dollar. And the need for U. S. companies to increase their international competitiveness is likely to limit cutbacks in capital spending.

Make no mistake, though: Manufacturing will be no help to the economy in coming months. The Purchasing Managers' Index, a composite of factory indicators compiled by the National Association of Purchasing Management, fell to 44.4% in September, from 47% in August (chart). When the index falls below 50%, it means the manufacturing sector is in a recession.

Last month's reading was the lowest in nearly eight years, and it suggests that the economy's August weakness extended into September. Indeed, the NAPM said that new orders among its members fell to their lowest level since the 1981-82 recession—a sign of further weakness to come in factory production and employment.

However, the purchasers reported that export orders continued to grow in September. And 88% of the companies said they had not changed their capital-spending plans as a result of the Mideast crisis.

BUILDING IS ALREADY CLOSE TO BOTTOM

Other factors will also limit the depth of the downturn. First, the foreign-trade deficit should continue to narrow. Exports will grow, if more slowly, but imports will fall, reflecting sagging U. S. demand. Because of the record share of domestic spending that imports now hold, foreign producers will absorb more of the weakness in demand than in past recessions.

In addition, construction has already fallen so far that it is probably closer to the bottom than it has been at the start of previous recessions. That's particularly true for housing. New-home sales fell 1.4% in August, to an annual rate of 550,000. That's 23.5% below the August, 1989, level. Housing starts have been in a steady downtrend since early 1986. Since then, they have posted a recession-size drop of nearly 43%.

But construction still has to fall a bit more. Building outlays have not yet reflected the decline in the value of new contracts during the past year. Contracts fell 3% in August, according to McGraw-Hill Inc.'s F. W. Dodge Group, pushing them 15.8% below their year-ago

level. Yet construction outlays are still up 2% from last year. As existing projects are completed, there aren't many new ones to take their place. That means fewer outlays and fewer jobs in coming months.

The weakness was plain in August. Construction spending was unchanged at $442.5 billion, but a surge in public building offset a 1.9% drop in private building. After adjusting for inflation, private construction spending fell to its lowest level in more than six years (chart). Real outlays for residential projects were off 1.2% in the month, while business construction fell 4.4%, including a sharp drop in industrial building.

HELP FROM THE FED MAY TAKE A WHILE . . .

But while the recession stands a good chance of being shallower than average, the economy's untraditional imbalances, mainly those related to excessive debt, will take a long time to set straight. Until then, the economy is likely to remain depressed. The average postwar recession has lasted about a year. A recession at least that long seems possible, particularly since economic policy doesn't seem to favor growth.

The new taxes and spending cuts contained in the Sept. 30 budget deal between the White House and Congress are an instant dose of fiscal restraint. But while the Fed is likely to ease monetary policy, as it has all but promised in the wake of a "credible and substantial" budget package, it could take six months to a year for the stimulative effect of easier money to kick in.

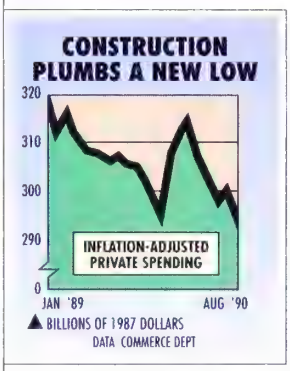
And unless the economy starts to come apart at the seams, any easing in coming months is not likely to be aggressive. That's because the Fed is still concerned about the inflationary consequences of the oil shock. Since the central bank has put off easing for so long, it is getting a late start on an economic recovery.

The fiscal squeeze is not only at the federal level. In the second quarter, the operating budgets of state and local governments—excluding social insurance—posted the largest nationwide deficit on record. Higher taxes and less spending at the state and local level will be a drag on the economy, too.

. . . AND DEBT COULD DRAG OUT THE PAIN

Debt also promises to stretch out the recession. Many corporations are leveraged to the hilt at a time when profits are falling. Earnings are sure to dip further in a recession, but interest costs will remain enormous. Keeping costs under control will mean trimming jobs, and consumers are already hurting.

In the second quarter, yearly growth in real consumer spending had fallen to only 1.3%. It has rarely slowed that much even in the depths of many postwar recessions. And consumers' large debt burdens will weigh heavily for some time. The second-quarter ratio of total consumer debt to disposable income was more than 20% higher than at the start of the 1981-82 recession. That ratio will rise even more as incomes weaken further.



It's no wonder that consumer attitudes are at such a low ebb. In September, the University of Michigan's index of consumer sentiment fell to the lowest level in 7½ years. Moreover, optimism seems to be waning in virtually all geographic regions. Even if confidence builds back up next year, consumers' debt problems may prevent a strong rebound in spending.

The second big question mark, of course, is the severity of the strain that the high leverage of the 1980s has placed on the financial system. Banks and many corporations are already getting wobbly, and the longer the recession continues, the more the pressures on them will grow. That just might be the element that turns a long and shallow recession into one that's long and deep.

THE WEEK AHEAD

INITIAL UNEMPLOYMENT CLAIMS

Thursday, Oct. 11, 8:30 a.m.

First-time claims for unemployment insurance for the week ended Sept. 29 are likely to be reported at about 395,000. Claims topped the 400,000 mark in the post-Labor Day week ended Sept. 15. A big rise in the week following a holiday is typical, but claims seem to be trending higher. The four-week average, at 384,000 in the most recent week, is the highest in four years, suggesting that the unemployment rate will be moving up this fall. New claims will take on increasing importance in the months ahead, mainly because they are a leading indicator of the economy. In addition, claims are a timely indicator, because they are reported weekly. Levels greater than 400,000 have usually preceded recessions.

RETAIL SALES

Friday, Oct. 12, 8:30 a.m.

Retail sales probably posted a modest 0.6% gain in September, according to a survey of economists by McGraw-Hill Inc.'s MMS International, following a 0.6% decline in August. Higher auto sales, helped by incentives from dealers, were a bright spot. But excluding cars, the analysts expect a rise of only 0.2%. Moreover, the increase will be inflated by higher sales at gasoline stations—the result of higher prices. Adjusted for inflation, real retail sales should be down. They're already 2% below last year.

PRODUCER PRICE INDEX

Friday, Oct. 12, 8:30 a.m.

Producer prices for finished goods in September likely jumped by 1.2%, according to the MMS survey. The steep rise reflects the second month of sharply higher energy prices following Iraq's invasion of Kuwait on Aug. 2. Prices of finished goods had risen 1.3% in August. However, the core rate of finished-goods inflation, which excludes the volatile energy and food sectors, is likely to be up only 0.4%, according to the economists following a modest 0.3% rise in August. Other than energy, inflation pressures in the economy's goods-producing sector continue to moderate, reflecting the general weakness in manufacturing.

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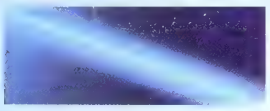

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THE FEDERAL DEFICIT

BUSH, SURROUNDED BY STAFF AND CONGRESSIONAL LEADERS, MEETS THE PRESS ON THE BUDGET: A LOT OF ARMS LEFT TO TWIST

THE LAST BEST CHANCE?

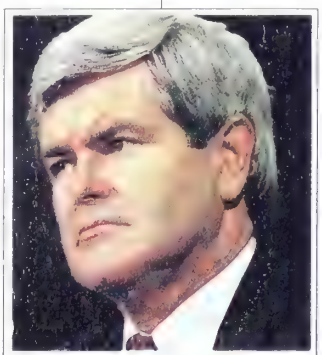
THE BUDGET PLAN WILL CUT THE DEFICIT—BUT NOT AS MUCH AS ADVERTISED

As Dr. Samuel Johnson once said of a dog walking on its hind legs: "It is not done well; but you are surprised to find it done at all." The same can probably be said for the budget deal hammered out by President Bush and exhausted congressional leaders on Sept. 30. After nearly two years of haggling, White House and Capitol Hill negotiators finally reached agreement on a multiyear plan to attack the deficit.

While the agreement falls far short of the Deal of the Century that Budget Director Richard G. Darman wished for, the pact at least begins to tame the deficit, which once again is soaring. The accord is "the last best chance to get this deficit under control," Bush says. "The major benefit will be a more vigorous economy." Maybe. And only if Bush can sell the plan to a hostile Congress.

The budget accord promises to reduce the red ink by $40.1 billion in fiscal 1991 (table) and by $500 billion over five years. Shorn of some optimistic assumptions and a bit of fancy bookkeeping, it probably will cut spending and raise taxes by $25 billion to $30 billion this year and perhaps by $300 billion by 1995. Under the agreement, the deficit in fiscal 1995 is supposed to drop to $63 billion. But independent analysts figure the true deficit will probably be at least twice that. After 1992, much of the claimed savings comes from an extremely upbeat view of the economy. "The economic assumptions account for half of the long-term deficit reduction," says one congressional aid "Take them out and you're still lookin at triple-digit deficits."

Still, there's no minimizing the accon plishment that Bush says was the resu of 140 days of "blood, sweat, and fears The bargainers agreed to the bigge deficit-reduction pact ever. "I give the close to an 80," sa Stanley Collender, a bu get analyst at Price W terhouse. "There a some real courageou things in there." Perha the bravest, and most p litically explosive, is t decision to trim $60 b lion from medicare ov five years. Another sig of political daring is t proposal to raise gasoli taxes by 12¢ a gall



GINGRICH: HOWLING FOR CAPITAL-GAINS CUTS

ver the next year, despite the huge
ınup in oil prices in recent weeks.
Moreover, unlike the tax bills of 1982,
4, and '86, when corporate taxes were
iked by hundreds of billions, there are
› broad, new business levies. Some in-
ıstries, especially insurance, will get
it. But others, particularly energy pro-
ıcers, get new breaks.

EAR-REVOLT. That means workers and
etirees will bear the brunt. And, with
ections just a month away, that has
gislators running scared. New excise
xes and benefit cuts—and the lack of a
x rate hike on the wealthy—have con-
ressional Democrats in near-revolt.
ouse Republicans are
› in arms because the
ıckage fails to include
capital-gains tax cut
ıd relies on a huge tax
crease.

With this bipartisan
ustration, Bush and
e congressional lead-
's are scrambling. "It
not a proposal that
ost members of Con-
ess want to rush out
reaming in the streets
ith joy about," says
ouse Speaker Thomas
Foley (D-Wash.).

The budding revolt,
d by Minority Whip
ewt Gingrich (R-Ga.)
ıd other House Re-
ıblicans, was so worri-
me that Bush lobbied
least 50 GOP lawmak-
s and went on nation-
television to peddle
e package. "I cannot
ıim it's the best plan
ssible, but it is the
st agreement that
n be legislated now,"
e President said on
t. 2. The peripatetic
ısh even canceled a
ur-day fund-raising
ring through New England to stay
me and twist arms on the Hill. The
esident is now so committed to the
al that he will oppose efforts by Sen-
e Republicans to tack his cherished
pital-gains tax cut onto the package.
We'll be going back for capital gains,
t we won't be doing so in the frame-
›rk of this agreement," says Darman,
ıo admits that winning the tax cut
er may be even tougher.

In an indirect way, Federal Reserve
›ard Chairman Alan Greenspan is also
›bying for passage. On Oct. 3, he be-
›wed a Fed chief's highest accolade on
e pact, telling a congressional commit-
tee it appears "credible." That's a magic word to credit markets, which take it to mean that the Fed will bring down interest rates. But Greenspan warned that rates won't drop much until a package is signed, sealed, and delivered.

The Fed chairman's caution is shared by private economists. "There's still a question mark over whether this is a done deal," says First Boston Corp. economist Darwin Beck. "The Fed won't ease until there is a vote in Congress."

Even with the support of Bush, the Democratic leadership, and Greenspan, the budget package is in for at least three more weeks of tense wrangling. "It will be very close, and I fully expect the House Republicans to vote something down along the way to let off steam," says Thomas Korologos, a lobbyist with close White House ties. "But in the end, the President will prevail."

The budget that finally emerges could differ significantly from the blueprint. For one thing, many of the specific changes in law needed to reach the deficit-reduction targets weren't spelled out. For example, the agreement calls for a $13 billion cut in farm payments, but doesn't say which crop programs should be cut. The task falls to the House and Senate Agriculture Committees, which must rewrite a just-finished farm bill.

Critical details could well be rewritten once committees get their hands on the plan. Most likely are revisions of the tax and medicare provisions (page 28). Some advocates for the elderly hint that they would accede to an across-the-board cut in medicare benefits as long as at least $2 billion in added assistance is provided for low-income seniors. House health subcommittee Chairman Pete Stark (D-Calif.) has already vowed to overhaul the medicare agreement.

It's hardly surprising that the negotiators left some loose ends. Bush and the Democrats were not only political rivals but also were pursuing totally incompatible economic policies. Says Senate Majority Leader George J. Mitchell (D-Me.): "What delayed us for months is what has divided us for years. Democrats and Republicans have deep differences over values and priorities."

FAIRNESS. The centerpiece of Bush's domestic agenda has been cutting taxes on capital gains while holding the line against tax increases. Deficit reduction, he insisted, should come from domestic spending cuts. And Republican lawmakers thought that a pro-growth, antitax stance would help them regain control of the Senate.

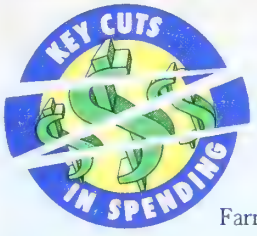
Democrats, desperately seeking an agenda of their own, elevated the notion of tax fairness into a populist anthem. They hoped to boost their chances of recapturing the White House by focusing on GOP policies that tilt to the rich. And the Democrats dreamed of a peace dividend that could be spent on child care, education, and health programs.

Neither side got any help from a disillusioned public increasingly resentful of tax hikes or spending cuts. Given that divide, it's not surprising that Bush and congressional Democrats found themselves in a 20-month stalemate.

It was only the hammer of deep, automatic spending cuts effective on Oct. 1 that broke the deadlock. The deal was aided by a backchannel personal relationship between opportunistic Budget

HOW THE BUDGET DEAL WOULD CUT THE FEDERAL DEFICIT

	Projected deficit savings Billions of dollars/Fiscal year 1991
Tax hikes on gasoline, other oil products	$6.8
Higher excise taxes on tobacco, alcohol, and luxury goods	2.3
Limits on itemized deductions for taxpayers earning more than $100,000	0.5
Other new taxes, including higher taxes on insurers	11.6
Increased tax deductions for small business investments, research and experimentation, energy exploration and other incentives	–5.0
NET NEW TAXES	16.2



Total spending hikes limited to rate of inflation for domestic discretionary programs, such as law enforcement, transportation, national parks, and education	0
Cuts in medicare benefits	4.6
Farm subsidy cuts	1.3
Defense spending cutbacks; no specific programs targeted	9.8
Miscellaneous cuts and higher user fees	8.2
Total spending reductions and higher fees	23.9
TOTAL FISCAL 1991 DEFICIT REDUCTION	$40.1

DATA: OFFICE OF MANAGEMENT & BUDGET

Chief Darman and the highly partisan House Majority Leader Richard A. Gephardt (D-Mo.).

The two agreed this summer they would continue private bargaining, no matter how contentious negotiations between Bush aides and the full congressional leadership became. When early-September talks at Andrews Air Force Base broke down, and again when discussions at the Capitol foundered, Darman and Gephardt pressed ahead. On Sept. 28, with the deadline near, the two kept talking in a room off the House floor. Darman, his shirt-tail hanging out, made a last-ditch attempt to keep a capital-gains tax cut in the package. And the normally natty Gephardt, sleeves rolled up and eyes puffy from lack of sleep, insisted Democrats would only accept a gains cut if Bush bought a rate hike.

SMALL SUCCESS. Finally, late on Sept. 29, they wore each other down. The Administration gave up its two-year struggle to cut capital-gains taxes and agreed to a package of incentives aimed at small businesses and the oil-and-gas industry. Democrats dropped their demand for higher rates and settled for a nick in the value of deductions for taxpayers earning more than $100,000 a year. The compromise satisfied no one, and it left critical policy issues unresolved. But it averted a $120 billion slash in government spending and an acute embarrassment for both the President and the Democratic leadership.

By that measure, the pact is a success. But the negotiators couldn't pull together the megadeal that would finally get the deficit behind them. Even if the accord is adopted in its entirety, the projected deficit for this fiscal year will be $254 billion—the largest in history. If a recession hits, as many economists expect, the shortfall could top $300 billion.

And while the agreement relies less on legerdemain than past accords, it is by no means devoid of sleight of hand. The negotiators took off the books the cost of the savings and loan bailout, which could run an extra $100 billion this fiscal year. But they count, for purpose of deficit reduction, the additional fe banks and thrifts must pay into the fe eral insurance fund.

The pact dodged tough decision about military spending. It exclude from the Gramm-Rudman deficit target the $7 billion cost of the Persian Gu buildup and won't count added expense should shooting start. And while th deal is touted as a five-year plan, it i cludes only about $67 billion in defens cuts over the next three years. Afte

SPENDING CUTS: SPREADING THE PAIN FAR AND WIDE

$4.6 BILLION THE MEDICARE REDUCTION MAY BE THE MOST POLITICALLY EXPLOSIVE

$9.8 BILLION MILITARY SPENDING WILL BE SLASHED —BUT JUST WHERE?

Commentary/by Douglas Harbrecht

THE BUDGET IS A SYMPTOM —THE SYSTEM IS THE DISEASE

It's October, 1993. A total government shutdown has been narrowly averted. President Bush takes an urgent phone call from Treasury Secretary Richard G. Darman. "Mr. President, the compromise is coming unglued," says Darman. "The Democrats want you to go to the voters."

Bush hits the road, imploring Americans not to punish politicians who support the five-year, $650 billion package of spending cuts and tax increases that will bring the federal deficit down to $300 billion by 1998. "This recession thing took a bigger toll than anyone realized," Bush tells a convention of the Veterans of Desert Shield in Phoenix. "The political reality is, no one can put together a better package."

Sound familiar? Don't be surprised if the scenario plays out two or three times during the coming decade. That's because the $500 billion deficit-reduction plan that was unveiled on Sept. 30 by President Bush and congressional leaders is another short-term fix that leaves major, chronic problems unresolved.

THEATRICAL COUP. The agreement may be a political triumph, but it's still likely to leave an unacceptably high deficit by 1995. And the persistent deficit, depressing as it is, remains only a symptom of a more serious malady: the inability of a stalemated American political system to resolve the fundamental issues of what government should do and how it should raise the funds to do it.

Since the Reagan revolution petered out in the mid-1980s, a divided g ment has failed to do more thar differences. When Bush and Co began work on the 1991 budget, believed this might be the year to down the impasse. In January, B Director Darman foresaw the oppo ty "to complete the job of fiscal correction."

As theater, the 11th-hour budge is a coup. As policy, it's another sid "A lot was just left on the shelf," Carleton College political scientist S E. Schier. The deficit was cut, but the burning policy questions of the were resolved (table).

Check out the tax compromise. crats began the deficit-reduction p determined to make the tax system "fair," which they defined as shif larger share of the burden to the Bush and the Republicans wanted jigger the tax code to provide new tives for investment.

Both goals are justifiable, but t hopelessly incompatible. Unable to cile their differences, the Administ

$1.3 BILLION FARM SUBSIDIES WILL BE CHOPPED UNDER THE BUDGET PACT. HOWEVER, THE TASK OF DECIDING WHICH CROP PROGRAMS BEAR THE BRUNT OF THE COSTS IS NOW UP TO THE HOUSE AND SENATE AGRICULTURE COMMITTEES

t, military spending is left open. 'he economic assumptions used in the 'eement have raised eyebrows among lget analysts. In the short run, the lgeteers assume the economy will lge recession and grow at a bit less n 1% through calendar 1990 and htly more than 1% in 1991. Those imates are close to those of many ate forecasters. After 1991, the pro- ions, developed by the Bush Adminis- ion, take on a rosy hue. In 1993, the nomy is projected to grow by a boom- ing 4%, while interest rates and inflation fall. Few economists believe such growth can be achieved without inflation. "The Fed would never stand for it," says First Boston's Beck.

What will this deal really accomplish? At first, it promises to be a drag on an already sluggish economy. A $20 billion cut in government spending and a $16 billion tax increase—much of it in consumption taxes—could be a shock to an economy that may already be in a recession. Bush can only hope that the credit markets will take the agreement seriously enough to bring down rates. With many of his aides, it's almost an article of faith. "The deficit reduction is going to bring down the cost of money in the United States," says Treasury Secretary Nicholas F. Brady.

BAGGAGE. But don't expect an immediate economic boost. "For the next six months, nothing would have helped us," says Peter J. Davis, chief economist at Ernst & Young. "It's a stopgap measure to make sure we don't fall further into recession."

The key to the pact's economic success is credibility. While this deal is more serious than its predecessors, it carries a lot of baggage. To make spending cuts stick, it relies on a complex, untested enforcement mechanism that would make it difficult to start a new program or increase spending for an old one without finding offsetting cuts or new revenues. Some of its tax components are bizarrely complicated.

But the biggest handicap is the well-earned skepticism of voters and financial markets. They've watched too many smiling pols proclaim too many breakthroughs, only to see the deficit deepen.

For the budget to work, it must help restore confidence in the economy. Otherwise, a slide into recession will cause the deficit to explode—and no combination of spending cuts and tax hikes will help. That's a lot to ask of any budget deal, even this one.

By Howard Gleckman and Paula Dwyer, with Mike McNamee, in Washington

igressional bargainers came up imble. For fans of tax incentives, a new, 25% deduction for invest- n small business. For the fair- wd, there's a 10% tax on luxury id a scheme to limit itemized de- among high-income taxpayers. bring in some serious money, an amalgam of nickel-and-dime s on gasoline and other petro- oducts, beer, wine, li- id cigarettes.

s an extraordinarily ited way to raise $134 ver five years. "We p with things that no- ther wanted or ever f before," laments E. Eizenstat, the top policy adviser in the White House.

pending side isn't any The budget summi- re only too happy to aling with Social Se- he largest single item federal budget. Instead, the agreement heaps all the individual entitlement cuts on medicare, which is deemed less touchy politically. The result: The cost of Social Security continues to grow unchecked, the problem of funding retirement benefits for future retirees remains unsettled, and the heaviest burden of deficit reduction falls on the elderly sick.

Negotiators couldn't even agree on how to fix a budget process that plainly doesn't work. "They put new nuts, bolts, and springs in a Rube Goldberg machine," says GOP analyst Kevin Phillips. "This farce is humming along nicely." Lawmakers shrugged off the need for basic revisions in the nation's long-term defense policy and chopped at farm programs with no overall strategy.

Can Republicans ever swallow a higher income tax rate for the wealthiest Americans and a defense budget that honestly addresses our post-cold war needs? Can Democrats ever accept structural changes in Social Security and farm policy? When they do, the red ink can stop flowing. Until then, Bush's oft-stated deficit-reduction goal of getting "the job done right" will remain a pipe dream.

UNFINISHED BUSINESS

TAX FAIRNESS OR INVESTMENT INCENTIVES Lawmakers ducked the issue by agreeing to some questionable investment incentives and imposing a new tax on fancy cars and furs

ENTITLEMENT REFORM The fastest-growing programs are the entitlements—medicare, Social Security, farm subsidies. The deal ignores Social Security, nibbles at medicare and farm policy

DEFENSE The serious debate over long-term defense strategy has been put off until 1993. The negotiators agreed to a split-the-difference plan

BUDGET REFORM Negotiators couldn't agree on whether to keep Gramm-Rudman's targets or to install a "pay as you go" system. Instead, they decided to do both

A TAX HERE, A TAX THERE— PRETTY SOON, IT'S REAL MONEY

The new plan is a hodgepodge intended to raise $134 billion in five years

The latest debate over new taxes has seen more than its fair share of posturing. President Bush challenged us to read his lips and insisted he would never accept any budget agreement that did not include a cut in the capital-gains tax. Congressional Democrats demanded that any deal be "fair" and that the rich pay a higher proportional share of new taxes than the less well-off.

But in the end, expediency, exhaustion, and compromise won out. Attempts to make major changes in the tax code were scrapped. Promised capital-gains reductions fell through the cracks. Threatened higher rates for the wealthy faded away. Instead, White House and congressional negotiators settled on a tried-and-true formula for raising taxes. First, they agreed to a wide range of modest tax increases that would chip away at dozens of existing tax breaks and marginally raise the cost of all sorts of activities. Then, they tossed in some carefully selected tax goodies, designed to buy the support of a few key lawmakers. All those nicks and scratches add up, though. Over five years, Bush and the congressional leadership would raise almost $134 billion in new taxes.

There are real doubts that Congress will approve the tax package as is. House Ways & Means Committee Chairman Dan Rostenkowski (D-Ill.) warns that he does not feel bound by the specifics of the deficit-reduction agreement. And beginning on Oct. 9, the congressional tax-writing committees will begin to tinker with the package. But while the details may change, it's a good bet that the basic structure will survive.

STEALTH BITER. The framework is simple: Raise taxes on most individuals without changing statutory rates. Put the biggest share of the burden on the middle class. Provide a handful of highly targeted investment incentives. Raise as much money as possible by hiking excise taxes, which have the great political advantage of getting built into prices of goods, never showing up on either pay stubs or tax returns.

Under the agreement, the poorest Americans would be hardest hit. Families earning less than $10,000 would see their tax burden rise by 7.6%, according to the congressional Joint Tax Committee, largely because of increases in excise taxes on gasoline, tobacco, and alcohol. The other big losers would be middle-income families earning $20,000 to $50,000. They will see their tax bills jump by about 3%. That has Democrats and tax reformers livid. Says Ways & Means member Charles B. Rangel (D-N. Y.): "We blew it. We'll never get an opportunity like this again to make the tax code fair."

The wealthiest taxpayers, who earn more than $200,000, would see only a 1.7% tax hike. According to an analysis by Arthur Andersen & Co., the tax bite for a typical family of four earning $200,000 would jump by a modest $1,619 (table). The well-off would be hit by two major tax hikes. The first is a limit on deductions for either singles or married couples with adjusted gross incomes of more than $100,000. The second is an increase in the medicare payroll tax f workers making more than $51,300.

But the wealthy shouldn't fret. T budget negotiators presented both entr preneurs and investors with an extrem ly generous new package of incentiv for investment in small and midsize bu nesses. The proposal would allow ta payers to deduct as much as $50,000 year for investments in companies th are capitalized at $50 million or less. L er on, sellers of stock in the compani could index their capital gain for infl tion. And the businesses themselv would be allowed to take immedia write-offs for capital investment a generous new credits for the cost of r search and development.

The Administration hopes the plan w encourage new investment in small bu ness. Says Treasury Secretary Nichol F. Brady: "It's a statement of belief the job-creating ability of small- and m dium-sized companies."

But critics contend that, at worst, t provision threatens to become the ne

HIGHER EXCISE TAXES: THE HIDDEN REVENUE-RAISERS

$2.1 BILLION THE PRICE OF SIN IS GOING UP AS BEER, WINE, LIQUOR, AND TOBACCO GET HIT

$200 MILLION LUXURY IT WILL GET DEARER—BUT NO ENOUGH TO DETER BUYERS

x-shelter bonanza, little fferent from the real es-te and oil-and-gas scams at were curbed by the '86 Tax Reform Act. At st, the skeptics say, the oposal would just shift vestment to small busi-ss at the expense of oth- sectors of the economy. t will spur growth in the x-shelter industry," says illiam C. Melton, chief onomist for IDS Financial rp. "But as far as the onomy as a whole is con-rned, the impact will be ry marginal."

Small business isn't the ly winner. Energy com-nies get back some of e tax breaks they lost in 86 and save an expiring write-off for oduction of natural gas. High-tech mpanies would get another one-year tension of the research and experi-ntation tax credit, which was due to pire at the end of 1990.

IE PRINT. But for every winner, there e losers. The insurance industry would te a nearly $2 billion beating in fiscal 91 alone. And U. S. subsidiaries of for-gn companies will face some tough w compliance standards. All compa-s are worried about a proposal that uld bar them from deducting interest ey owe the Internal Revenue Service underpaid taxes.

The package includes a proposal de-ibed only as "certain business tax ovisions." That benign phrase de-ibes up to $2 billion over five years in other corporate levies—details to be agreed upon later. And for the favored few, it would provide congressional tax-writers with a $600 million honey pot of undefined tax incentives that can be distributed among a few deserving companies. The revenue impact of these provisions won't be known for years.

But the budget agreement avoided the big income-tax changes that nearly became a biannual event in the 1980s. Instead, in what could be the beginning of a new trend, excise taxes became the new target of opportunity. Levied on everything from carbon tetrachloride to pricey cars, these taxes would raise more than $10 billion in 1991 and more than $75 billion through 1995. "We can't touch rates, and it's not that easy to broaden the base any more," says Gillian M. Spooner, a partner at KPMG Peat Marwick. "So you have to move out of the income tax."

Taxes on gasoline and other petroleum products will hurt the most. Gasoline taxes will go up by a nickel a gallon in each of the next two years, along with another 2¢-a-gallon tax on all petroleum products. The tax won't cut consumption much—it's too low to change behavior—but it will raise big bucks unobtrusively. Some suspect the push toward excise taxes may be a dress rehearsal for something bigger. Says Spooner: "I call it a backdoor value-added tax."

While the tax on luxury items has received lots of attention, it is not likely to have much impact on consumers. Buyers with their heart set on that shiny new BMW won't let an extra few thousand dollars scare them away.

'DIRECT HIT.' Excise taxes are not the only hidden taxes in the package. The budgeteers proposed increasing the Social Security and medicare tax liability of state and local governments by $21 billion over five years, new obligations that will be passed straight to taxpayers. "It's a direct hit, right off the top," says Frank Shafroth, chief lobbyist for the National League of Cities. "We'll have to raise state and local taxes to pay a federal tax."

This hodgepodge of proposals does nothing to settle the great debate between those who believe the tax code should be, most of all, progressive and those who insist it should provide incentives for economic growth. And it surely doesn't end the squabble over whether to cut the capital-gains tax—a battle that could be fought anew in the next year or two.

Instead, the proposal tries to achieve a much simpler goal: raising money to help tide over a flat-broke government until the next fiscal crunch. That, after all, was why the income tax was created in the first place.

Once the great budget debate of 1990 is finally over, there will be no broad philosophical arguments about its meaning. Economists won't pore over its details to seek the secrets of the perfect tax code. Rather, after a couple of years, the bean counters will simply tote up how much was collected by this homely and misshapen tax package. Then, they will pass another tax hike, at least as big as this one.

By Howard Gleckman, with Vicky Cahan and Paula Dwyer, in Washington

HOW THE NEW TAX PROPOSALS WOULD HIT UPPER-INCOME TAXPAYERS

EFFECT OF CAP ON ITEMIZED DEDUCTIONS AND INCREASED MEDICARE TAX

INCOME	$73,000	$73,000	$140,000	$200,000	$300,000
FILING STATUS	SINGLE	JOINT	JOINT	JOINT	JOINT
TAX					
▶ CURRENT LAW	$15,977	$13,333	$31,597	$51,397	$79,888
▶ PROPOSAL	16,292	13,333	32,535	53,016	82,197
MARGINAL RATE					
▶ CURRENT LAW	33.0%	28.0%	33.0%	32.9%	28.0%
▶ PROPOSAL	33.0	28.0	34.0	33.9	28.8
EFFECTIVE RATE					
▶ CURRENT LAW	25.4	21.2	26.3	28.6	28.5
▶ PROPOSAL	25.9	21.2	27.1	29.5	29.4

DATA: ARTHUR ANDERSEN & CO

$6.8 BILLION WHILE ENERGY COMPANIES ARE GETTING BACK SOME OF THE TAX BREAKS THEY LOST IN 1986'S REFORM, CONSUMERS WILL BE PAYING 12¢ A GALLON MORE FOR GASOLINE AND 2¢ A GALLON MORE FOR OTHER PETROLEUM PRODUCTS

Commentary/by Karen Pennar

THIS 'DWARF RECESSION' MIGHT BE A GIANT

When the last time you experienced something was eight years ago, it's easy to forget just what the experience was like. But that hasn't stopped dozens of economic forecasters. Now that there's a consensus that the economy is either in or headed for its first recession in eight years, most economists are pretty sure that they know what the downturn will look and feel like. The contraction, they say, will be both short and shallow. That is, it will probably last from six to nine months and gross national product will shrink 1% to 1.5% in that period. In other words, a mild recession.

How comforting—as if the economy were just coming down with a cold. The fact is, nobody really knows how the downturn will play out, and it could turn out to be more prolonged and more painful than most expect. It's true that inventories remain well under control and that housing has already contracted considerably—two things that many economists take as signs that the economy doesn't have far to fall when it does fall (page 21). But there are a number of special factors that could make that plunge a good deal more treacherous. Consider the following:

■ **New imbalances.** In the real economy, where goods and services are bought and sold, there are no excesses or imbalances right now. "No boom, no bust," says Roger E. Brinner, chief economist at DRI/McGraw-Hill. But on the financial side of the economy, where loans are made, the situation is far different. Debt accumulation drove the consumption binge and the merger wave of the 1980s, and ready credit financed persistent government deficits. Now, real estate prices are stalled or falling, business sales are slowing, and the economy's overall growth has been anemic. The economic assumptions underpinning all that debt are vanishing.

So the belt-tightening has begun. In the meantime, though, loans are turning sour and banks are hurting. Until now, the financial system has sprung some serious leaks—from the savings and loan failures to Chase Manhattan Corp.'s recent funding difficulties—and they've been plugged. But with the financial system so fragile, there could be a cascade of problems "like water mains bursting in New York City," says Neal M. Soss, chief economist at First Boston Corp. Too many at once, and the system may be swamped.

■ **Expectations and the Fed.** This must be one of the most heralded recessions ever. Economists are waiting for it, executives are waiting for it, consumers are waiting for it, and even some government officials are waiting for it—the mild one, that is. Things were slowing down before the Aug. 2 invasion of Kuwait, but the shock to oil prices jolted confidence. Then Federal Reserve Board Chairman Alan Greenspan gave Congress a lesson in semantics: In his book, even if the economy contracts a little for a couple of quarters, that wouldn't necessarily qualify as recession. A real recession, according to Greenspan, is a "cumulative unwinding" of economic activity. The Fed's anti-inflation fight, especially since the oil shock, remains paramount.

Of course, if people expect a downturn, then they prepare for that downturn: Businesses let workers go, and consumers cut spending. And since Greenspan has in effect said he will tolerate the two-quarter downturn that might result, he is virtually ensuring that it will happen. He's also running the risk, though, that it could be far worse. Morgan Stanley & Co. economist Stephen S. Roach detects a corporate readiness to "cut costs first and ask questions later." Roach doesn't think this will snowball, but he acknowledges that the process can be self-perpetuating: Workers lose their jobs, incomes contract, people cut spending, sales fall, more workers lose their jobs, and so on. Presto! A cumulative unwinding.

■ **Bad luck and bad timing.** For the past eight years, a run of good luck has kept the economy growing. When the government ran up massive deficits, foreigners obligingly financed those deficits. When the stock market crashed, the consumer kept on spending. When one sector rolled into a slowdown, another rolled right out of one.

Now, the economy seems to be getting a dose of bad luck. First, there's the pocketbook shock of higher oil prices. Second, thanks to that shock, it seems that growth will be slower in Europe and Japan than imagined only a few months ago (page 46). And that means U.S. exports are unlikely to save the expansion. Then there's the budget accord, which could dampen growth. Finally, there's the possibility of war in the Mideast. And whatever popular Keynesianism teaches, the loss of life in the Persian Gulf region ultimately won't boost the economy.

Add it all up, and there's not much to be sanguine about. Of course, it's always possible that the pundits will prove to be right, and the recession we get will indeed be mild. But for those whose memory is short or who simply don't know, the dwarf recession is a fairly rare animal. The eight postwar recessions lasted an average of 11 months and registered an output decline of 2.5% in real gross national product—longer and deeper than most experts are forecasting today.

ODYEAR TIRES FOR EARTHMOVERS: DEMAND IS HEALTHY, BUT THE COMPETITION IS TOUGH

IOW WELL CAN GOODYEAR TAKE 'HE BUMPS UP AHEAD?

s stock is flattening—and even its durable dividend may not be safe

he big tire wholesaler had just gotten back from a trip to Goodyear headquarters in Akron. He sound- impressed. Goodyear management, he id, was serious about bringing its fi- nces and operations into line with the ugh realities of the global tire busi- ss. Then he paused and asked: "How fe is the dividend?"

Good question. The quick answer is at for a little while, at least, the divi- nd is probably safe. But the very uestion shows the financial pressure odyear Tire & Rubber Co. is under. fter all, the company hasn't reduced its yout in half a century. It has an- unced plans to push decision-making thority down into the ranks and to nserve cash. But it's not clear that the oves can insulate Goodyear from the orst effects of a U. S. recession.

ELING THE PINCH. Such worries are rt of the reason the stock market is nishing the big tiremaker's stock. At out 17, just half of where it traded ly four months ago and barely more an one-fourth of its 1989 high, Good- ar's market value is only about $1 bil- n. At its current price, the stock is elding more than 10%, vs. 3.23% for e Standard & Poor's 500-stock index. uff & Phelps Inc. downgraded Good- ar's commercial paper on Oct. 3, and oody's Investors Service Inc. is consid- ing doing the same to the company's her borrowings. If Moody's acts, Good- ar bonds will become noninvestment- ade—in other words, junk.

Goodyear isn't alone in its troubles. Rivals Bridgestone Corp. and Michelin, which just reported a first-half loss, are also feeling the pinch. Intense competition is offsetting the benefits of relatively strong demand. In Europe, says UBS Securities Inc. analyst Jean-Claude Gruet, original-equipment tire prices are off 18% this year. And in the U. S., where Goodyear remains the leader, production capacity has again outstripped market needs. At the same time, because of weaker car sales, tiremakers earlier this year dumped units intended for Detroit into the replacement market, driving down prices.

With no relief at home or abroad, Goodyear's profits have plunged. After earning just $27.9 million, excluding special items, on sales of $5.6 billion in the first half, it announced a month ago that it would lose $14 million from operations in the third quarter and make only $14.7 million in the fourth. True, special circumstances are partly to blame: a strike in Turkey, economic turmoil in Latin America. But profits have been sliding since 1987, and Goodyear appears damned no matter what it does: Last year, it raised prices and lost tire sales. This year, lower prices have boosted sales but are hurting profits.

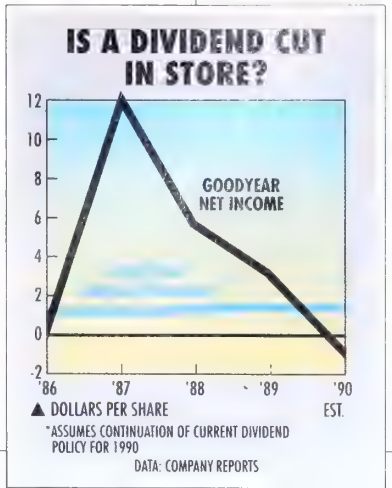
As a result, Goodyear isn't earning enough to pay its dividend, which costs $104 million annually (chart). Although its capital spending will decline this year, to perhaps $600 million, that's still considerably more than depreciation of $420 million. That has led a number of analysts, such as Merrill Lynch & Co.'s Harvey E. Heinbach and PNC Financial Corp.'s John B. Franck, to class the dividend as "vulnerable." Oren G. Shaffer, the company's chief financial officer, tiptoes around the dividend issue. But he implies that the payout is safe. "The dividend on Goodyear stock now is a very integral part of the value package shareholders are getting," he says. "We consider it very important."

But Shaffer makes no bones about the need to tighten operations. "Any time your operating results fall off the way ours have, you have to adjust your plans and strategies," he says. The company has announced a series of cost cuts, including reorganizations of its U. S. stores operation and its domestic and European sales staff. The moves will trim roughly 3,000 jobs. And in the past year, it has moved to shutter permanently parts of three plants. Chairman Tom H. Barrett also has indicated that capital spending in 1991 and 1992 will be limited to depreciation levels. Those outlays were due for a breather, anyway, since the company is just completing a new plant in Canada and is about done with its switch to radial tires.

PLENTY OF ROOM? But the capital-spending cap also signals the cash-flow squeeze. To run leaner, Barrett wants to chop working capital by $300 million to $400 million. Shaffer is zeroing in on inventories, which rose last year because tire sales were lower than planned. Says analyst Saul H. Ludwig of Cleveland's Roulston & Co., an investment firm: "Goodyear is scaling back its factory operations to bring inventories in line with demand and to conserve cash."

If it wanted to, the company could go deeper into hock to keep the dividend. It's paying fixed rates on most of its $3.8 billion in debt, so even a downgrade should not raise costs too much. And Goodyear has $2.1 billion in untapped, guaranteed borrowing capacity. "I think they've got quite a bit of room," says one lender.

Adding more debt, however, is just what Barrett doesn't want to do. He'd like to pare back the borrow-



ings Goodyear took on to fend off raider Sir James Goldsmith in 1986 and finance its $1.6 billion oil pipeline. The California-to-Texas line is running at less than 30% of capacity, cutting earnings and weighing down the balance sheet. Rising oil prices could make it easier for Goodyear to find a buyer willing to pay what the company would consider a reasonable price. But rising energy costs would also hurt tire operations by driving raw-material prices up and demand down.

No wonder few analysts will commit themselves to making firm predictions of a turnaround. Some feel the company is hitting bottom and that cost reductions will help 1991 results. But even the most bullish is studying Goodyear and wishing it looked a little stronger.

By Zachary Schiller in Cleveland

WHERE PAYOUTS ARE REALLY GETTING PUMMELED

If stock dividend payments are a sign of general business health, then Corporate America's vital signs are slipping. And if history is any guide, the latest round of dividend cuts is more worrisome evidence that a recession may already be upon us.

Compare the first three quarters of 1990 with the first years of the past two recessions (chart): The 278 corporations that have reduced or eliminated their dividends already exceed 1973's tally and are uncomfortably close to 1981's. So far this year, dividend cuts are up 41% over the same period in 1989.

Nor will the situation improve soon. Bankers Trust Co. projects that the average yearly dividend payout for a Standard & Poor's 500 stock will shrink by 5% in 1991, a sign that corporate finances are stretched thin. Says Kenneth E. Knutel, equities strategist for Kemper Financial Services Inc.: "When you're vulnerable, reducing dividend expenses is simply prudent."

GAS PAINS. Some of the worst off are companies that loaded themselves with debt during the leverage-happy 1980s. Take Unisys Corp., the product of a 1986 union of Sperry and Burroughs made possible by $4 billion in borrowings. Debt service has left the Blue Bell (Pa.) company with little wherewithal to weather the business downturns in computers and defense electronics. So Unisys has axed a 25¢-a-share quarterly dividend, which will save the company $160 million yearly. There's a baleful side effect to such a move, though: The stock gets mauled. Since Unisys' Sept. 27 dividend announcement and a downgrade of its bonds to junk status on Oct. 2 by Moody's Investors Service Inc., its stock has sunk 43%, to 4 on Oct. 3.

Most dividend cutting is occurring in cyclical industries. USAir Group Inc., suffering from rising jet fuel costs and fewer passengers, is ending its 3¢ quarterly payout. Other hard-pressed steel, auto parts, and construction companies may soon follow.

Banks and finance companies have never been immune to recessions, but this time the exceptionally bad real estate market is pummeling their payouts. In September, this hapless group made up 12 of the 21 companies trimming or yanking their dividends. Most prominent is venerable Chase Manhattan Corp., whose 62¢ quarterly dividend was more than halved in September.

The archetypal widows-and-orphans stocks are the least likely to rein in their dividends. "Electric utilities and phone companies will be stable enough to keep paying," says J. Eric Leo, a managing director at Equitable Capital Management Corp. And limping businesses that want to put on a brave face for shareholders often defend their dividend as if it were the Alamo. Chrysler Corp. is in trouble again, but pledges that its 30¢ quarterly payout remains sacred—despite the auto maker's negative cash flow.

That vow, like the dividend itself, may become a luxury it can't afford.

By Larry Light in New York, with Joseph Weber in Philadelphia

RESEARCH

SEMATECH'S NEW GENERAL

Xerox's Bill Spencer takes over a the chipmaking consortium

The death of Robert N. Noyce las June left a huge void in the sem conductor industry. Noyce, a Sil con Valley founding father, had heade Sematech, the consortium dedicated t restoring U. S. chipmaking prowess. I dustry executives wondered where the could find a leader who would comman as much influence and respect.

On Oct. 3, the industry got a surpri ing answer: William J. Spencer, 60, s nior technical officer at Xerox Corp. H is not widely known in the chip industr but key executives say he has what S matech needs. "His people skills are ex cellent," says Charles E. Sporck, CEO c National Semiconductor Corp. and member of the selection committee.

INDUSTRIAL POLICY? Spencer started hi career in semiconductor research a American Telephone & Telegraph Co. Bell Laboratories in 1959 and late worked at Sandia National Laboratories At Xerox, he proved he knew how t turn technology into products, a key is sue for Sematech. Most recently, he pe suaded warring technical factions at Xe rox to work together to bring ou Xerox's DocuTech Production Publishe a blend of computer and copier techno ogy introduced on Oct. 2 (page 40).

At Sematech, Spencer will need all hi consensus-building skills. U. S. chip makers have traditionally been a fiercel independent lot. The consortium—fun ed jointly by member companies an $100 million from the Pentagon—is sup posed to bring chipmakers and semicon ductor-equipment makers together to de velop leading-edge technology. Spence told BUSINESS WEEK he thinks researc funding at member companies should fo cus on pure technology rather than o developing specific equipment. The re sulting technology can at first be sol only to Sematech members. Other U. S chipmakers get their shot much later.

That approach sounds like industria policy—anathema to the Bush Adminis tration. Jeffrey L. Mayer, director of th Commerce Dept.'s Office of Policy Ana ysis, says the Administration support Sematech but "opposes industrial policy You reconcile the two." To do tha Spencer's technology and political skill will have to be just as good as billed.

By Richard Brandt in San Francisc

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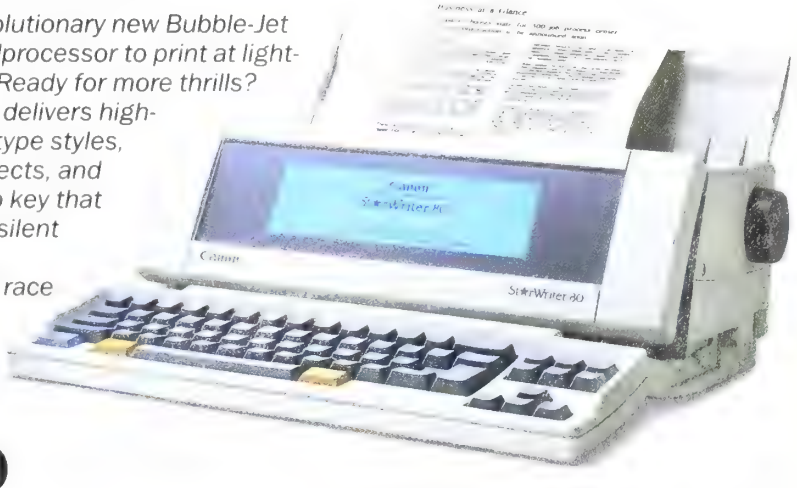

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MINICOMPUTERS

IN COMPUTERS, A SHAKEOUT OF SEISMIC PROPORTIONS

Painful change is everywhere—but mini makers are hit particularly hard

Remember the Massachusetts miracle? It was built in part on the fortunes of big computer makers Digital Equipment, Data General, Wang, Prime Computer, and others. Now, that miracle has turned to a nightmare. And not just for Michael S. Dukakis. Wall Street is expecting Digital Equipment Corp. to report an estimated $26 million quarterly operating loss, the first in its proud 33-year history. Data General Corp. is reeling, as is Wang Laboratories Inc. In late September, there were rumors—vehemently denied by the companies—that the two would merge.

But it's not only the pride and joy of Massachusetts that are suffering. The 1980s were a decade of flourishing expansion, when new computer makers seemed to spring up almost weekly. Now, the industry is on the verge of a momentous shakeout, brought on by sweeping technological change and a sagging economy. Most vulnerable are the minicomputer makers and aging mainframe companies.

RULE CHANGE. The signs of painful change are everywhere. After eliminating its common-stock dividend and seeing its debt rating plunge, mainframe maker Unisys Corp. has lost nearly half of its market value. In Europe, Japanese powerhouse Fujitsu Ltd. agreed in July to buy 80% of Britain's flagship computer maker, International Computers Ltd., a company believed by its own management to be too small to survive alone. And French government officials recently urged [illegible] computer champion Groupe Bull to find a European partner—either Italy's Olivetti or Germany's Siemens. Meanwhile, Digital—and other minicomputer makers such as Data General, Hewlett-Packard, Wang, and Prime—are increasingly vulnerable to the microprocessor.

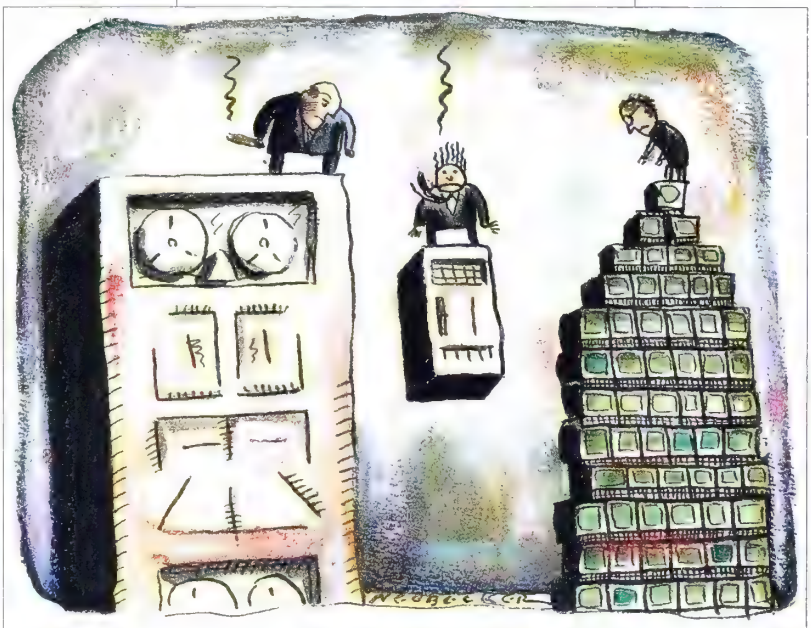
Indeed, the computer-on-a-chip is radically altering the economics and competitive rules of the computer business. Mini makers once thrived on selling proprietary machines for $100,000 or more. Today, though, the same work may be done on a $5,000 machine based on one of a few standard microprocessors. The rise of workstation maker Sun Microsystems Inc., for instance, has been largely at the expense of Digital's minis.

But it's harder to differentiate micr processor-based machines from the co petition's and price them to earn tra tional profits. Computer makers th used to enjoy gross margins of 60% 70%, says James E. Ousley, president Control Data Corp.'s computer-produc group, "need to be at a point where th can make a reasonable return on ju 30% to 40%." So they are slashing pa rolls, focusing on niches, and even se ing off divisions. "We're all having deal with the infrastructure we built over the past 20 or 30 years," Ousl adds. "Our margins are never going be the same."

RUSH TO STANDARDS. This profou change helped thrust Prime Comput Inc. into a drawn-out takeover drar that ended in a leveraged buyout. Da General since 1984 has had to cut payroll by 45%. And Wang, althou still strong in the legal market, is just shadow of its former self.

To cope, companies are rushing to e brace standards—the so-called "op systems" market—p marily with low-pric desktop computers. Y none has succeeded offsetting the slide profits from proprieta gear. Even Hewle Packard Co., one of t earliest to move in open systems, h watched its operati margin shrink from 1 in 1986 to an estimat 9.1% this year, analy Kevin A. McCarthy Mabon, Nugent & C points out. And even mini makers strive keep expenses from b looning, a recessi could deny them mu benefit: They "may ready to turn the corn when there ain't no c ner to turn," says Ro ert Kidd, an indust analyst with Dataques a market researcher.

Only two mini ma ers are counting on co tinued strong sales proprietary gear—IB with its AS/400 line a Digital with its Vaxe But both are also pus ing hard into open sy tems and emphasizi networks to connect computer brands. A Digital is feeling seve pressure: IBM is mo competitive in min



ASSESSING THE MINI MAKERS

	Strength	Weakness
DIGITAL EQUIPMENT	Large, loyal customer base; financially strong	High costs despite slowing revenue growth
HEWLETT-PACKARD	Strong technology; diversified	Still struggling with acquisition of Apollo
DATA GENERAL	Low overhead; strong in Europe	Small market share; losses scaring off offers
PRIME	Concentrating on CAD/CAM niche	Shrinking role in higher-profit commercial market
WANG	Strong in legal market and image processing	No workstations, lagging in "open systems"
BULL HN	Government markets	Aging technology

DATA: DATAQUEST INC., BW

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than it was a few years ago. And Digital's heavier dependence on minis means it's more vulnerable to micros. For Digital, says Joseph Payne of Alex. Brown & Sons Inc., "IBM is a rock, and PCs are a hard place." Now, insiders say Digital may shake up its U.S. sales force.

NO MERGER MANIA. Groupe Bull, meanwhile, is readying a wide-ranging turnaround plan to reduce losses that totaled $331 million in 1990's first half. Sources speculate that some big layoffs and an accelerated shift of development resources to open systems are in the works. There may also be a management shakeup at Bull's Zenith Data Systems unit in Illinois, which it acquired last December for $511 million.

A recession, experts say, isn't likely to spark a wave of deals. "There are easier areas to do mergers" in than computers, says Sanford R. Robertson, a San Francisco venture capitalist. Analysts point to Unisys, a conglomeration of Sperry Corp., Burroughs Corp., and other companies, to show what can go wrong. It has hardly turned into the strong rival to IBM that its boosters once forecast. As for Japanese companies swooping on struggling American computer ma ers, that likely would raise a politic storm.

So the U.S. will likely see its secon tier computer makers try to stick it o on their own, picking shots carefully a fighting to survive as best they ca That may not be enough. When the du settles after the shakeout, many U. computer companies may be goners.

By John W. Verity in New York, wi Gary McWilliams in Boston and Jonath B. Levine in Paris

INDUSTRIES

GRAPE GLUT: THE AVERAGE COST OF A CASE OF CHARDONNAY SHOULD DROP BY 5% TO 10%

WHY CALIFORNIA WINEMAKERS ARE CRYING IN THEIR CHARDONNAY

Big harvests have prices falling—and the fight for shelf space is vicious

In early September, Dennis Groth, owner of a small winery in the heart of the Napa Valley, was all set to sell 100 cases of his premium chardonnay to an upscale restaurant. But suddenly, the restaurant's wine buyer demanded a discount of 25% for each $112 case. Groth refused. "I couldn't believe it," he says. "When I asked why, they said: 'Why not? Everyone else is doing it.'"

Groth's disgust is turning into a chardonnay lover's delight. As this year's harvest makes its way from vineyard to winery, the $3.5 billion California industry is again suffering from too much of a good thing. That means that wine retailers are bracing for a flood of moderately priced offerings from producers offering great bargains to win pride of place on store shelves.

Chardonnay grape growers have good weather and overplanting to blame. They had their largest harvest ever in 1989—162,000 tons, a 40% hike from 1988. This year's harvest should fall short of that, but not by much. The glut translates into lower retail prices: The average cost of a case of chardonnay this fall should drop 5% to 10%.

While consumers may relish the bargains, the glut only complicates an already softening wine market. Overall wine consumption has been down for several years running. The chief victim has been the lowest-priced "jug" wines, but last year, domestic premium wine sales grew only 6%, according to a r port by investment bank Hambrecht Quist Inc. And although chardonn seems to be faring better than mos makers of super- and ultrapremiu wines may get hurt as less expensi chardonnays turn consumers' heads.

Many of those cheaper vintages a likely to bear the unfamiliar labels buyers selling inexpensive bulk wine u der their own names. These "fightin varietals" combine the distinctive stan of grape varieties such as chardonnay zinfandel with low prices—many bottl cost from $3 to $7 in California. "Y will see new entries taking advantage low prices," predicts Mike Benzige managing general partner of Glen Ell Winery, which will produce more than million bottles of chardonnay in 1990.

WARFARE. Glen Ellen, like other now-f miliar brands, established itself by pr ducing fighting varietals during t wine glut of the early 1980s. Wineri that outlived the surplus owe their su vival to skill at matching quality wi low cost. The same holds true toda Says Dewey Kwong, buyer for Co Plus Wine Shop in San Francisco: " you don't have the right label or t right product, you could put $1.99 on and it wouldn't sell."

Not all winemakers are battenin down the hatches. Jack Cakebread, pre ident of the Napa Valley Vintners Ass and head of Cakebread Cellars, insis that wines with considerable cache such as his Chardonnay Reserve—reta price $27—will still command top dolla "I think you have to look at it case b case, winery by winery."

Meanwhile, some producers believe chardonnay glut could have a silver li ing: Low prices could attract new wi drinkers who previously have resist prices of $10 or more for a good Califo nia chardonnay. But Liquor Barns Inc. Cameron Wilson thinks most new bu ers will just be switching from oth varietals. In either case, some Californ chardonnay producers may soon be su fering from a painful hangover.

By Laura Holson in the Napa Vall

They don't brag about their kids,
or make you watch slides of their vacations.

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In Business This Week

EDITED BY HARRIS COLLINGWOOD

XEROX WANTS TO BE MORE

▶ Can Xerox be more than just a copier company? On Oct. 2, it unveiled the first of a new product line that scans, copies, and prints documents with resolution rivaling that of an offset press. Priced at $220,000 a pop, the DocuTech Production Publisher will be marketed to offset printers and big corporate print shops searching to save time and money. Future enhancements will link the machine to computer networks and allow various kinds of bookbinding.

The rollout hype puts the product right up there with Gutenberg's press. Yet, while the DocuTech is more powerful and sophisticated than rivals' machines, competitors offer individual components that perform the same tasks. And Xerox is racing the Japanese to release cheaper machines that will bring offset-quality printing to the desktop.

ARBITRON LOSES ONE TO NIELSEN

▶ Arbitron is shutting down its retail-tracking unit, SAMI, a victim of rival A. C. Nielsen's superior capabilities in following which products sell where. Just 2½ years ago, Arbitron paid Time Inc. $60 million for SAMI.

Arbitron says it now will take on Nielsen by pooling its data with upstart research firm Information Resources. The thinking is that Arbitron's TV ratings and advertising information, combined with Information Resources' supermarket scanner data, will produce a viable competitor to Nielsen.

FNN VS. ITS BEAN COUNTERS

▶ Financial News Network, a 24-hour cable channel for business news, said on Oct. 2 that a disagreement with its auditors may result in a bank loan default and a substantial loss for its fourth quarter, ended June 30, and the year.

The dispute is over how FNN should account for the $28 million it spent to develop FNN:Pro, a new stock-quote and video service it offers to brokers and professional traders. FNN wants to spread out the cost. The auditors want FNN to take the hit in one quarter. If they prevail, the company might, in the worst case, have to pay off $48.5 million in bank debt. FNN execs are talking to bankers about waivers to prevent default.

PET MAY DO BETTER WITHOUT ITS OWNER

▶ Whitman Chairman James Cozad is reversing his publicly stated goal of building a food-and-beverage company. The company on Sept. 28 said it would spin off to shareholders its largest unit, $2 billion packaged-food maker Pet.

Cozad says that as a standalone stock, Pet "will get the value in the market that it wouldn't have gotten as part of Whitman." Yet despite the market bias against conglomerates, he says he intends to keep Whitman's remaining units—Midas muffler shops, a Pepsi bottler, and a food-equipment maker—under one corporate umbrella.

Some investors seemed remarkably prescient about Cozad's change of heart. On Sept. 27, trading volume in Whitman stock topped 1 million shares. Average daily volume is less than half that.

A DANCING PARTNER FOR VESTRON

▶ Vestron, the tiny home-video distributor that broke into movie production in 1987 with the blockbuster *Dirty Dancing*, is down to its last tango. On Oct. 2, the financially pressed company announced that its three largest creditors had agreed to Live Entertainment's bid to acquire Vestron. In the deal, subordinated debtholders would receive Live securities, while common shareholders would see their stakes nearly wiped out.

Live, in turn, will get Vestron's domestic home-video library of about 1,200 titles. The Los Angeles company also gets a shot at big earnings with the production rights to *Dirty Dancing II*.

THE IRS WON'T TAKE DEATH FOR AN ANSWER

Death and taxes. The Internal Revenue Service won't let the former interrupt collection of the latter. Just ask Ehsanolla Motaghed. Well, you can't.

Motaghed, who in life was an Omaha importer of optical lenses, was indicted last April for allegedly bribing an IRS agent. But he died at age 66 before going to trial, still owing, say the feds, $157,000 in back taxes. Gravely suspicious, the U. S. Attorney in Omaha aske to exhume the body to make positive identification. "The U. Attorney's Office has been watching too many Alfred Hitc cock movies," James Davis, Motaghed's attorney, told t *Omaha World-Herald*. At that point, Assistant U. S. Attorne Thomas Thalken backed off, conceding that "the person wh allegedly was dead is dead." But you still can't take it wi you. Another assistant U. S. attorney has filed papers seekin to seize the $110,000 Motaghed posted as bail before his deat

WILL HBJ UNLOAD MORE ASSETS?

▶ The last of the old guard a Harcourt Brace Jovanovic has faded from the scene. O Sept. 28, the publishing com pany announced that Chie Operating Officer Willia Brandner, an associate of fo mer Chairman William Jova ovich, had resigned. The de parture may signal furthe asset sales at HBJ.

Expectations on Wall Stree are that HBJ's three insuranc companies now will go on th block. A company spokesma says there is no connectio between the resignation an the future of the units. How ever, CFO Robert Evanson who oversaw the sale o HBJ's theme parks in 198 is overseeing the insuranc outfits.

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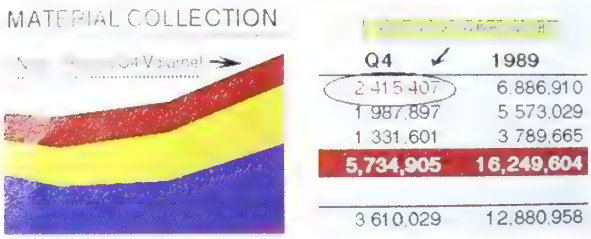

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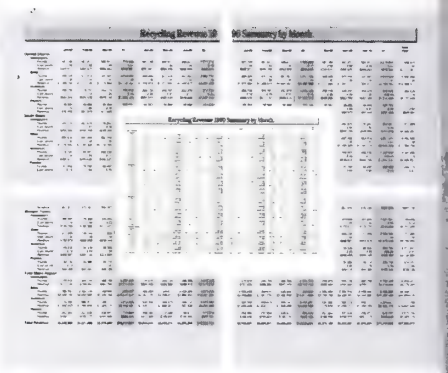

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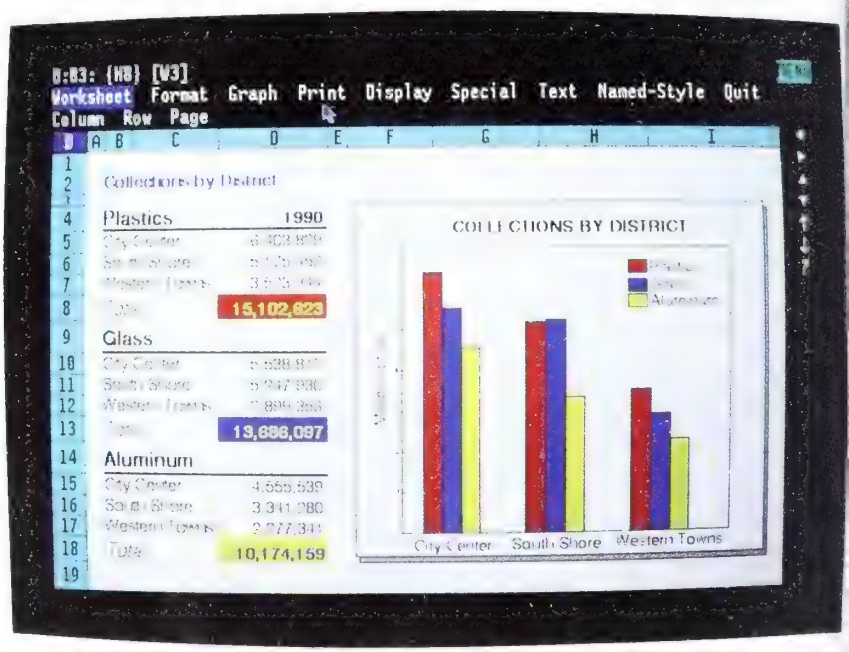

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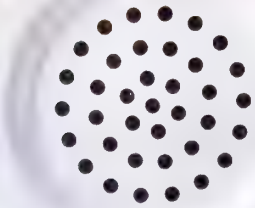

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1990 Recycling Summary

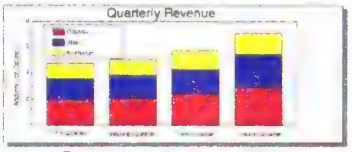
Last year was a good year for the company. WeCycle was profitable and came very close to achieving our goals in a very uncertain economic and recycling climate.

Revenue by Product

Material collections increased over the year. Plastics continue to bring in the most revenue and profit for the company. Prices for aluminum are still very soft and while we're continuing to collect more glass, markets for the raw material are still in their infancy.

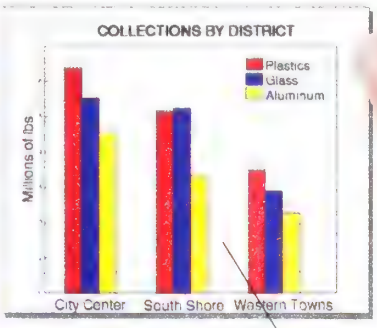
Revenue	Q1	Q2	Q3	Q4	1990
Plastics	1,890,785	1,982,024	2,378,397	2,836,983	9,088,189
Glass	1,700,504	1,862,135	1,869,430	2,600,684	8,032,753
Aluminum	1,146,884	1,182,022	1,489,421	1,601,763	5,420,090
Total	$4,738,173	$5,026,180	$5,737,248	$7,039,430	$22,541,032

The graph at the right details our revenue by waste material for the four quarters of 1990. The revenue increases show that communities are building their recycling programs beyond just collecting plastics. Revenue from **aluminum and glass have increased** as their programs have gained volume. But, we're still seeing price pressure as the supply of recyclable materials continues to exceed the demand. We need to look for ways to expand our markets and increase the use of recycled materials.



Collections by District

Plastics	1990
City Center	6,403,829
South Shore	5,175,450
Western Towns	3,523,344
Total	15,102,623
Glass	
City Center	5,538,812
South Shore	5,247,930
Western Towns	2,899,356
Total	13,686,097
Aluminum	
City Center	4,555,539
South Shore	3,341,280
Western Towns	2,277,341
Total	10,174,159



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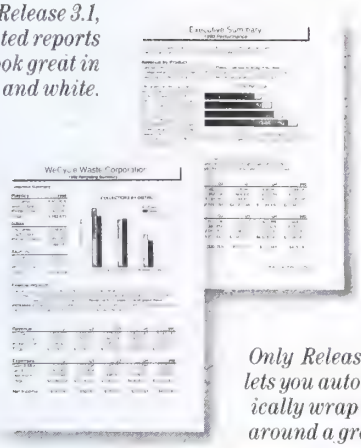

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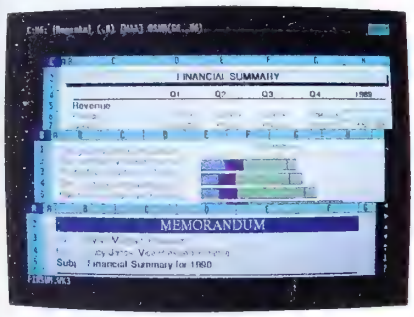

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EDITED BY STEPHEN H. WILDSTROM

WHATEVER HAPPENED TO THE GREAT ABORTION DEBATE OF 1990?

A funny thing happened to the abortion issue on the way to this fall's elections. After the Supreme Court set off a fire storm last year by freeing states to restrict a oman's right to end a pregnancy, pro-choice Democrats ıought the issue would be a huge advantage in 1990 races. ut as election day nears, the abortion debate has become ıriously muted.

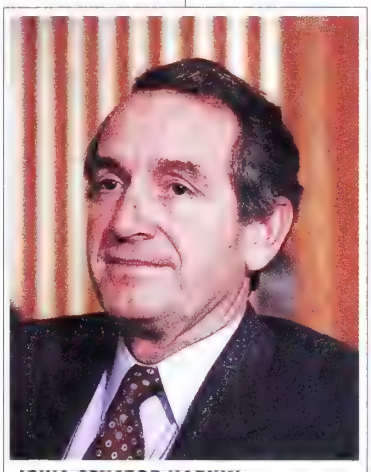
This fall's campaigns show that while a pro-choice position is sually a plus, candidates still must convince voters that they ın fix potholes, balance budgets, and im-ove education. What's more, the abortion gument has been drowned out by recession ars and the specter of war in the Middle ast. "People are tired of the issue," says andy Enwright, executive director of the wa Republican Party. "They just don't ant to be beaten to death about it."

00-POUND GORILLA.' In the months that fol-wed the high court's *Webster* decision, ate legislatures were the abortion battle-ound. By and large, only measures requir-g minors to get a parent's permission for ı abortion won acceptance. More severe re-rictions were either vetoed or struck down courts. Few states are now contemplating aconian curbs.

President Bush also turned down the heat. y proclaiming that the GOP's "big tent" was rge enough to hold all views on abortion, ısh's political advisers freed Republican candidates to ignore e party's tough antiabortion platform. And the President sisted pro-lifers' demands that he appoint an avowed foe of ortion to the Supreme Court. Instead, he picked David H. uter, who said he was open-minded on the question. On Oct. the Senate easily confirmed the New Hampshire jurist.

In Iowa, abortion was to have been central in races for both e governorship and a Senate seat. But the issue hasn't ught fire. Pro-life Governor Terry E. Branstad has a comfortable lead over his pro-choice Democratic challenger, Donald Avenson. In the Senate contest, the situation is reversed, with pro-choice freshman Tom Harkin edging pro-life GOP challenger Thomas Tauke.

Abortion has also faded from the debate in Florida, where GOP Governor Bob Martinez was embarrassed when the legislature killed his antiabortion proposals. The Democratic challenger, former Senator Lawton M. Chiles, is locked in a neck-and-neck race with Martinez but has hardly mentioned the issue. "It's sort of the 900-pound gorilla that fortunately is asleep," says University of Florida political scientist Richard K. Scher. "Why wake it up and divide people further."



IOWA SENATOR HARKIN: PRO-CHOICE AND IN THE LEAD

FLIP-FLOPS. Initially, conventional wisdom held that any politician who flip-flopped on abortion was doomed. A Rutgers University study of the 1989 New Jersey governor's race suggests voters rejected what they perceived as pro-life candidate Jim Courter's attempts to portray himself as pro-choice. But after long agonizing, some politicians now find it safer to ease their opposition to abortion. Maryland Democratic Governor Donald Schaefer, who just saw three antiabortion state senators ousted in a primary, recently announced he was pro-life as a person but pro-choice as governor. And in Georgia, Senator Sam Nunn, perhaps eyeing a 1992 run for the Democratic Presidential nomination, told constituents he was changing his position to pro-choice.

The calm may not last forever. A deeply divided GOP faces a wrenching internal fight over abortion when it drafts its 1992 platform. And a Supreme Court decision overturning the 1973 abortion-rights ruling could quickly bring the issue back to center stage. But after 10 years of warfare between pro-lifers and pro-choicers, all but the most dedicated activists seem ready for a cease-fire in the abortion wars.

By Tim Smart, with Gail DeGeorge in Miami

APITAL WRAPUP

REAPPORTIONMENT

Conflicts between states and cities are causing new problems for the roubled 1990 U.S. Census. Urban in-erests, including House members rom big cities, are anxious for the ommerce Dept. to correct what the ols regard as a huge undercount of nner-city populations. Commerce, vhich hasn't yet decided whether to ry to correct for the undercount, says couldn't possibly complete the com-lex calculations before next July. But tates are anxious to get on with the hore of reapportionment and want fi-al population numbers by next Apr. 1, s required by law. Speedy certification of the census is especially important in the six states, including Illinois and New Jersey, that hope to redistrict in time for legislative elections next fall. But cities fear that once states begin drawing new districts, any undercount adjustment would be moot.

CONVENTIONS

San Diego, which submitted a late bid for the 1992 Republican Convention, may walk off with the prize. GOP staffers have been especially impressed by the San Diego arena and by the city's transportation services. New Orleans is still in the running, but Republicans are reluctant to go back to the site of their last meeting.

CLEAN AIR

Will an overhaul of the Clean Air Act die in the 101st Congress' rush to adjournment? Despite the huge investment by the Administration and key lawmakers in the legislation, it could happen. House and Senate negotiators are hung up on major issues, including acid rain, car emissions, alternative fuels, and toxic pollution. House conferees are beginning to fight among themselves while senators threaten a walkout. The White House's latest attempt at a compromise fell short. One top environmental lobbyist now says the odds of success this year are down to 60-40.

SO LONG, 'EUROPHORIA'—IT WAS NICE WHILE IT LASTED

Pricier oil, inflation fears, and sluggish growth have torpedoed the wild optimism about 1992

Until this summer, it seemed as if nothing could stop the European miracle. Propelled by the strong winds of German reunification, the opening of fledgling Eastern markets, and the drive to create an economic bloc by 1992, Europe seemed to be entering a decade of unfettered growth. But now, as Middle East tensions pump up oil prices and inflation fears push interest rates to 10-year highs, Europe's hopes are crumbling. "Europhoria is gone," says Maurice Lippens, president of Brussels-based insurer Groupe AG.

All across Europe, executives and government officials are coming to the same conclusion. No one thinks Europe's economy is about to fall off a cliff just yet. Germany's massive unification effort will help European gross national product expand by 2.4% in 1990, estimates economist Richard Reid of UBS Phillips & Drew Securities Ltd. (charts). But that would still be Europe's slowest growth in five years. In fact, as the past few months' stock-market turmoil (table) focuses attention on fundamental problems many executives had overlooked, it is becoming clear that Europe's pre-1992 optimism was overdone.

Well before the Persian Gulf crisis began in August, the cheap dollar and a slowdown in exports to the slumping U. S. were beginning to take their toll on profits. Now, faced with near-recession in Britain and with weakening earnings and overcapacity in a wide range of key industries across Europe, dispirited executives are cutting back investment plans. Consumers are slowing spending and boosting savings. And some governments, including Germany, France, and Spain, are slashing expenditures or thinking of raising taxes.

Spreading malaise could intensify existing strains on Europe's 1992 unity push. It is already delaying plans to strengthen the European Community's trading bloc by establishing a single central bank and currency. But unless there is a quick and favorable resolution of the gulf crisis, it's hard to see how the recent damage can be contained.

If oil prices stick at $30 to $35 a barrel, says the Confederation of British

	Percent change since Jan. 1*	
	In local currency	In dollars
PARIS	-25.5%	-16.8%
FRANKFURT	-25.4	-19.2
ZURICH	-24.0	-10.0
BRUSSELS	-22.4	-13.9
AMSTERDAM	-22.2	-15.1
MILAN	-19.0	-11.8
LONDON	-17.9	-3.9

*Through Sept. 28

DATA: BRIDGE INFORMATION SYSTEMS INC., BW

dustry's chief economic adviser, Doug- ; McWilliams, Europe's growth could id to 1%. Even if oil falls back to $25, ıny economists say Europe may be ;ing a stretch of slow growth instead the beginning of the golden decade it s long envisioned. In fact, with the S. already on the brink of recession d Japan facing financial stresses fol- ving its stock-market collapse (page), a weakened Europe won't be able to lp hold up the slowing world economy, many had hoped.

A sharp reversal in corporate profit)wth is one reason so many execu- es are turning pessimistic. Take Socié- Générale de Belgique, the huge con-)merate still recovering from a 1987 d by Italian industrialist Carlo De nedetti. It now expects 1990's net will down by at least a third, as arms es and mining activities slacken. Move to Britain, where the economy is ggering under 10.6% inflation and % interest rates. Proclaiming that ısing is in the worst slump "of any ring my lifetime in the business," Sir fford Chetwood, chairman of builder orge Wimpey PLC, recently reported a % drop in first-half earnings. Then p in Italy, where auto maker Fiat re- ıtly recorded a 13% drop in first-half)fits and announced it would furlough 000 workers. "The party is over," /s Chairman Gianni Agnelli.

ANS ON HOLD. Mounting gloom could ng to a close a decade of mergers, ıuisitions, and restructurings aimed at ping position companies to compete)bally and within the EC's new free- de system. Europe recorded some $40 ion in takeovers during the first half 1990. But most computer, semiconduc- , and auto makers are still too small compete globally.

Many are counting on Germany to ep Europe moving along. Most fore- ;ts still put German growth at 3.25% s year and 3% in 1991. But those esti- tes may be coming down soon. Even fore Saddam Hussein's troops rched into Kuwait, Germany was king less robust than common wis- n suggested. Commerzbank recently dicted flat to lower production next ır in a dozen key industries, including os, computers, and food. And profit)wth is slowing to a third of last ır's 13% rate. Rebuilding East Germa- should, in time, pump up growth ain. But the initial impact will be to w things down.

Europe's slump is hitting blue chips oss the board. Telefónica, the Spanish ephone monopoly, has seen orders for v lines drop by 6%, its first downturn five years. It may pare capital spend- by $1.8 billion. High oil prices and lar weakness could drive pretax earn- s for German chemical maker BASF

Group down as much as 40% for the year. And Belgium's state airline Sabena may lose as much as $266 million.

Electronics companies are particularly vulnerable. A victim of the spreading shakeout in the European computer industry, Italy's Olivetti laid off 2,000, as its first-half profits slumped by 41%. France's Groupe Bull lost $331 million in the first half, on top of a $41.8 million deficit last year. And Philips, Europe's largest consumer-electronics maker, expects to lose about $1.1 billion this year, because of restructuring charges and inventory write-offs in computers and chips. The losses could be a signal that Europe's high-tech strategy is falling apart. Despite massive government and industry spending and hard-nosed trade policies, electronics makers are still failing to gain enough market share to fund high research and development budgets.

CARS STALLED. If electronics are bad news, autos are turning out to be a bloodbath. With gasoline prices on the rise, Jacques Calvet, chairman of French carmaker Peugeot, expects European sales to decline nearly 1% this year and an additional 3% in 1991. Calvet is calling on the EC to freeze Japanese auto makers' 10% market share until the year 2003, vastly more restrictive than the European Commission's proposed 18% limit. Renault expects 1990 profits to fall more than 8%, and Germany's Volkswagen recently announced first-half pretax earnings fell by 16.5%.

Weakening car sales mean poorer prospects for such auto suppliers as France's Michelin, the world's biggest tire maker. Although Chairman François Michelin had been warning about falling profits for some time, the size of the group's first-half loss—$69.8 million—shocked the Paris bourse when it was announced in mid-September. Michelin may lose as much in the second half as it did in the first.

Some companies are selling the family jewels to finance earlier acquisitions. British media mogul Robert Maxwell, for one, is preparing to shed at least $450 million in assets to lighten the $3.6 billion debt that's burdening his Maxwell Communication Corp.

But will buyers be as willing to pay a high price to get in on the European miracle? Without doubt, Europe remains set on creating a single market of 320 million consumers that will rival the U. S. and Japan economically. But as the oil market sends off signals unheard since the 1970s, Europe's old self-doubts are returning. If they spread, the unity sprint may slow to a crawl just a few yards from the finish line.

By Blanca Riemer in Paris, with John Templeman in Bonn, Jonathan Kapstein in Brussels, John Rossant in Milan, and bureau reports

'THE ERA OF EASY MONEY IS OVER'

In Japan, the cost of capital is soaring. But so far, cash-rich multinationals haven't felt the pinch

It didn't grow on trees. But money came easy to many Japanese companies in the late 1980s, thanks to the turbocharged stock market in Tokyo. The money till helped Japan hastily retool its export machine to pump out lower-cost products while the yen doubled in value. It underwrote $162.4 billion in overseas investment from 1986 to 1989. Even massive takeovers, such as Sony Corp.'s $3.4 billion buyout of Columbia Pictures Entertainment Inc., were a snap. To help pay for the takeover, Sony was able to issue bonds with rates as low as 0.3%.

The cheap money machine is now grinding to a halt. Stock prices have plunged 41% since the start of the year, wiping out $1.8 trillion in value—about three-quarters of Japan's annual gross national product. Interest rates are up sharply. To attract money, cash-hungry companies are suddenly offering investors sweeter deals on bond issues, and Japan's brokers are limiting new issues to $340 million. "The era of easy money is over," declares Seiki Nakajima, director of finance at household goods maker Kao Corp.

But that doesn't mean Japan's economy is cracking up (chart, page 50). Although the capital crunch will squeeze Japan's financial sector and punish some smaller manufacturers, top-name multinationals are still on a roll. Their well-stocked treasure chests mean they will not have to turn to the financial markets anytime soon, insulating them from higher capital costs. Matsushita Electric Industrial Co. has enough cash to buy MCA Inc. twice over at its rumored asking price of $7.5 billion. Having tapped the markets for an extra $2.5 billion since last October, Matsushita says its current $3.2 billion capital spending plan is fully funded—and will hardly drain its $24.6 billion reserve. Toyota Motor Corp.'s $4.2 billion spending plan for 1990 barely dents its $15.9 billion hoard. Hitachi Ltd. has $15.8 billion in cash, and other top manufacturers are nearly as well set.

DESPITE FALLING STOCKS, GROWTH

Prices on Tokyo's stock exchange (left) have plunged 41% since the year began—squeezing financial markets and small businesses. But big companies such as telecommunications giant NEC Corp. (right) are increasing capital spending by a 17% clip

While Japan's stock market has been in trouble, forecasts are still calling for GNP to grow by more than 6% this year, the highest rate since before the 1973 oil crisis. Whereas U. S. officials are fretting about the U. S. economy tilting into recession, the biggest worry of Japanese bureaucrats is restraining too-rapid growth and avoiding inflation, caused in part by higher oil prices and labor shortages. Rather than campaigning for lower interest rates, the Bank of Japan is expected to raise rates again later this fall to keep growth under control.

'ADJUSTING.' Overall, experts say stock market excesses of the late 1980s are being squeezed out of the system in a way that will strengthen Japan's top manufacturers. More resources are going to be devoted to making things. "There's a note of glee when people say 'The Japanese are getting theirs,'" says Edward J. Lincoln, senior

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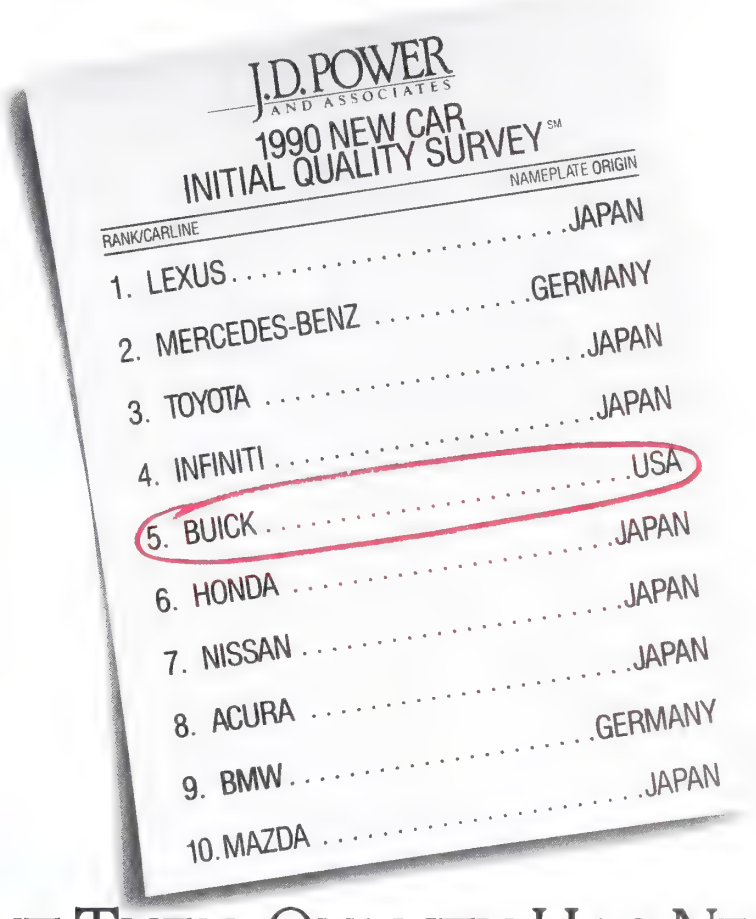

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fellow at the Brookings Institution. "But the Japanese still might have the last laugh. This is Japan adjusting and not Japan coming to the end of its rope."

Evidence to that effect is that none of Japan's leading corporations has yet announced revisions of capital spending plans. That translates into continued strong research as well as more labor-efficient plants in Japan and a broader international reach. In 1989, Japan became the first country since World War II to outspend the U. S. on plants and equipment, laying out a cool $549 billion to the U. S.'s $513 billion. DRI/McGraw-Hill economist Milan Brahmbhatt says that when the public sector and housing are included, investment represents 38.5% of Japan's GNP, a postwar high.

To be sure, there is pain ahead for some Japanese companies that still need to raise capital. Take the warrant bond game. In the go-go days, companies could issue bonds with interest rates of 1% or less as long as they were coupled with warrants to buy stock at bargain prices. Investors assumed that stock prices would keep rising. But today, yields on such bonds have shot up over 5%. Nippon Metal Industry Co. is paying 5.375% on a $70 million warrant bond issued in September. Other companies such as Kao are being forced to sweeten the terms of their equity-linked debt. Such measures "are indicative of how desperate [some] Japanese companies are to raise capital," says Robert J. Sasaki, a trader at Jardine Fleming Securities Ltd. in Tokyo.

Dozens of other companies are giving up on new financing altogether. On Sept. 28, Mazda Motor Corp. suddenly canceled a yen convertible bond issue valued at $725 million for fear of weak demand, despite the high 5.5% coupon attached. Mazda denies it will have any trouble meeting its $870 million spending plan for 1990. But it has been more than 18 months since it last tapped the markets, and some worry that future spending—and its ability to keep pace with the likes of Toyota and Nissan—will be threatened. "We never thought the market would get this bad," says Mazda Director Keiichiro Yoshikawa.

WEAK LINKS. But analysts expect small and midsize companies, many of which are unlisted and don't have access to the capital markets, to feel the biggest jolt from higher rates. "These companies haven't been raising lots of surplus money in previous years," says Iwao Nakatani, professor of economics at Osaka University. "The effect [on them] will be dramatic."

Other losers will be companies that played financial games, which the Japanese call *zaitech*. Men's apparel maker Taka-Q Co., for instance, boosted its 1989 profits 73% by playing the markets with a $312 million kitty raised over the past five years. Now that it is losing money on its portfolio, "Taka-Q will take a hit from two sides, because its basic business is not doing well either," says Mariko Kodama, an analyst at rating agency Mikuni & Co.

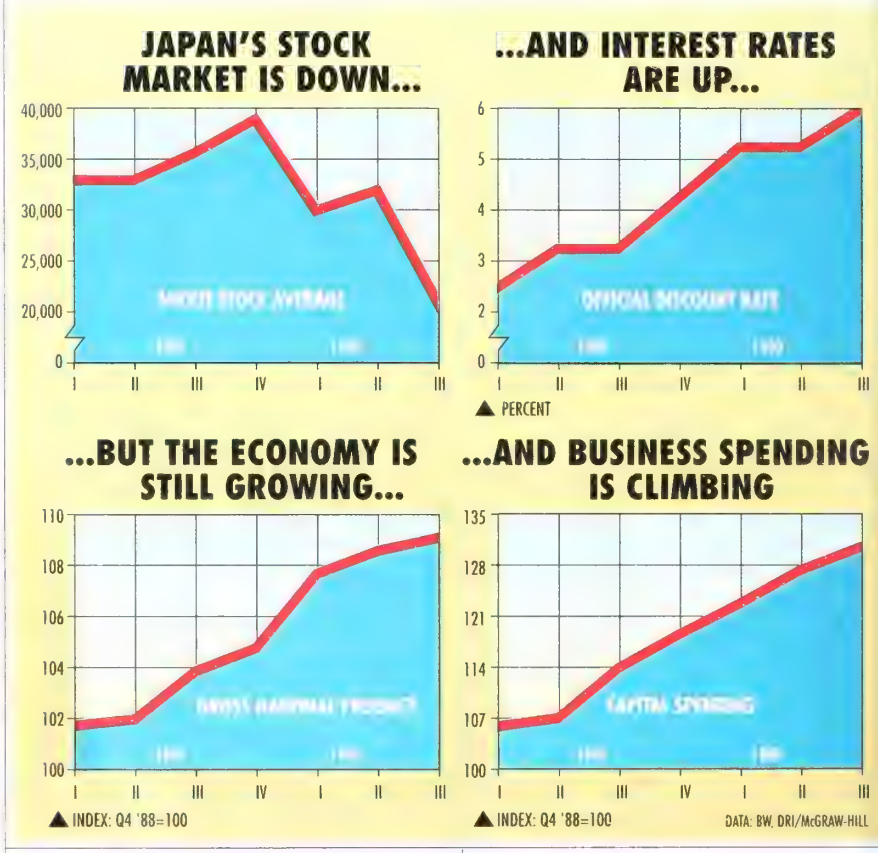
But for the foreseeable future, the pressure on Japan's big spenders will be slight because they are riding a cushion of $190 billion in equity that was raised during 1989. "The issue for these companies is not funding costs but profit opportunities," says Akio Mikuni, president of Mikuni.

In some senses, the money game is still tilted in Japan's favor. Nowhere is this clearer than on the Tokyo stock exchange. Although stock prices have taken a beating, price-earnings multiples are still high: At 32, they're more than twice the average ratio of Standard & Poor's 500 stocks. And even though borrowing costs are up from 5.4% one year ago to 8% now, that's still about two percentage points lower than the borrowing rates for U. S. corporations. "The relative advantage is still very much with Japan," says James C. Abegglen, president of consulting firm Asia Advisory Service Inc.

In fact, higher interest rates could help the big get bigger. On a net basis, higher rates help Matsushita, Toyot and Hitachi because they raise the ear ings from the companies' cash reserve Although Japanese banks are cuttin back on overseas investments, the she strength of big manufacturers might low them to continue expanding even the U. S. and Europe tilt into recessio In the semiconductor crunch of the ear 1980s, for example, "they kept increa ing capacity right through the rece sion," says Dick K. Nanto, head of t Congressional Research Service's Jap Task Force. "At the end of the rece sion, they were the only ones with ne capacity and stood to gain mark share."

What gives Japan added manueverin room is that it has dramatically expan ed its domestic market and carved out much broader presence throughout Ea Asia, the world's fastest-growing regio Japan's foreign investments also ha given it a measure of insulation from t vagaries of currency swings and prote tionism. "Unless the U. S. goes into very severe recession, a small decrea in net Japanese exports to the U. S. w not pull them into recession," says Ka to. If that's true, Japan's toughest co panies will continue their march. Japan much-vaunted capital edge may ha been narrowed, but to embattled co petitors, it may no longer matter.

By Ted Holden in Tok



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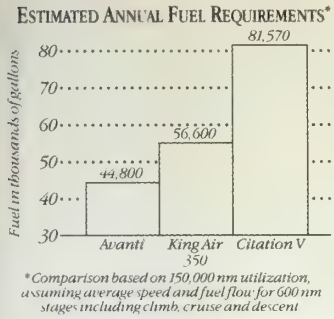

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PIAGGIO Avanti P180

AMR AVANTI SALES

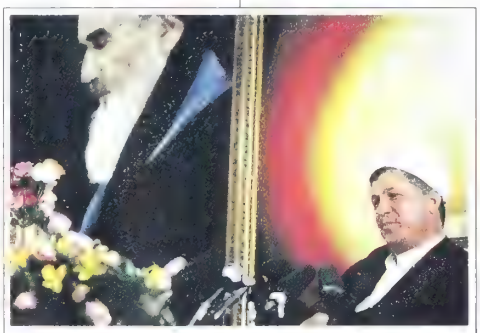
EDITED BY JOHN PEARSO

IRAN IS MAKING THE MOST OF BEING THE LESSER OF TWO EVILS

Emerging from the Persian Gulf crisis as the U. S.-Iraq standoff continues is a surprise winner: Iran. After years as an international pariah, Iran is suddenly being courted both by Iraqi President Saddam Hussein and by his Western and Arab adversaries. Iranian President Hashemi Rafsanjani is deftly playing both sides for political and economic gains.

From Baghdad, Rafsanjani is wringing a highly favorable settlement of the 1980-88 Iran-Iraq war. Saddam is giving up everything he fought for, including sole control over the strategic Shatt-al-Arab waterway. In his Aug. 15 acceptance of Rafsanjani's peace terms, Saddam even opened the way for Tehran to seek reparations. "Everything you wanted . . . has been realized," Saddam wrote.

At home, Rafsanjani's hard-nosed role in managing Iraq's capitulation is a boost in his political struggle against anti-Western radicals. In the Rafsanjani-Saddam letters that Tehran has since published, Rafsanjani comes across as tough and shrewd while Saddam sounds increasingly desperate.



RAFSANJANI: COURTED BY EUROPE AND IRAQ

EUROPEAN THAW. While squeezing concessions from Iraq, Rafsanjani is also fast improving Iran's relations with Europe. On Sept. 27, he scored a major coup by persuading Britain to renew diplomatic relations. The British were so eager to ensure Iran's observance of U. N. sanctions against Iraq that they didn't press Rafsanjani to withdraw the late Ayatollah Khomeini's death threat against author Salman Rushdie, which caused the rift. The warm-up with Britain should clear the way for European credits and technology to help rebuild the war-devastated Iranian economy. In the first major long-term Western loan to Iran in years, France's Société Générale agreed on Sept. 5 to raise $1.8 billion to finance three petrochemical projects.

Rafsanjani, who has staked his career on improving the economy, is also reaping the windfall from higher oil prices. With crude at $30 per barrel, Iran would earn $27 billion year, compared with the $15.4 billion estimate in its curren budget. An Iranian businessman predicts that Rafsanjani ma soon win Parliament's approval for stepped-up investments.

Rafsanjani has also been able to cozy up to the conservativ Arab states, long estranged by Iranian radicalism. In Ne York on Sept. 29, Foreign Minister Ali Akbar Velayati hoste a dinner for foreign ministers of the Saudi-led Gulf Cooper tion Council, who were attending U. N. meetings. The Saud say they will consider easing limits on Iranians making th pilgrimage to Mecca that were imposed after rioting in 198

Gary Sick, a Columbia University Ira specialist, predicts Tehran may also g economic aid from the gulf states.

SMOKESCREENS. Rafsanjani knows, c course, that all these gains could be lo if Iran were caught seriously violatin the sanctions against Iraq. That is wh most observers doubt recent report that Iran intends to swap food for Ira oil. "That would be crazy," says Vah Petrossian, a London-based Iran exper However, Iran can't afford to be see taking America's side in starving fello Moslems. So Tehran will put up occ sional smokescreens of anti-American rhetoric.

Such outbursts, and the continued holding of American ho tages by Tehran-linked Lebanese groups, mean that Iran's tie to the U. S. will not warm up as fast as those with Europe "Relations with Iran are likely to improve with a whimpe rather than with a bang," says Anthony H. Cordesman, natio al security aide to Senator John McCain (R-Ariz.)

U. S. officials also urge wariness of a resurgent Iran if Ira is defeated militarily. With a population of 56 million, th region's biggest by far, Iran could replace Iraq once again a the gulf power to watch out for.

By Stanley Reed in New York, with Marilyn Achiron in Cair Amy Borrus in Washington, and Ruth Pearson at the U. N.

GLOBAL WRAPUP

MEXICO

President Carlos Salinas de Gortari is already looking beyond the proposed free-trade agreement with the U. S. to a role for Mexico as an economic bridge between North and South America. A free-trade pact signed with Chile on Oct. 3, providing for elimination of all tariffs between the two countries within three years, is a first step toward that goal. The accord is expected to spur exports of Chilean fish, forest products, and farm produce to Mexico, and of Mexican auto parts and other manufactures to Chile. Such exchanges are feasible because Chile and Mexico have already moved further toward market economies than other Latin American countries. Now, Colombia and Venezuela are also discussing free trade with Mexico.

Compared with its huge trade with the U. S., Mexico's economic ties with the rest of the hemisphere have been minuscule up to now. But eventually, Salinas hopes, investments from the U. S., Japan, and Europe, combined with low labor costs, will make Mexican industry increasingly competitive. The result could be a growing role for Mexico as a supplier of manufactured goods to other Latin American countries and a customer for their products—as well as a gateway between North and South.

ISRAEL

Jerusalem will now let Washington keep closer tabs on Israeli settlements in the West Bank in return for $400 million in new U. S. loan guarantees to house Russian immigrants. Israel yielded to a U. S. demand for periodic reports on housing outlays and is expected to ask for even bigger guarantees to cope with an immigrant tide that may total 400,000 in 1991.

Only a few hundred settlers, including Russians, are expected to relocate this year in the West Bank, where around 75,000 Israelis now live. But Washington fears an Arab backlash if the influx into the West Bank rises.

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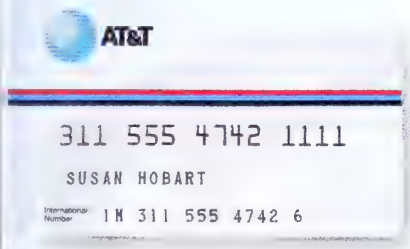

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HEIRS

'I HAVE MY PLANS, AND I HAVE MY VISIONS'

Janet Holmes à Court means to run the family holdings

They called him The Great Acquirer. Flouting convention and ignoring reputation, Robert Holmes à Court became, for a time, the richest man in Australia. His audacious corporate raids once struck fear in the hearts of chief executives everywhere. Now he's gone, dead of a heart attack at age 53 on Sept. 2. Into his shoes steps an executive with a markedly different style. Understated and down-to-earth, the new boss of Heytesbury Holdings Ltd. is anything but a rabble-rouser. She is Janet Holmes à Court, his wife.

True to the Holmes à Court style, she has quickly made her mark. Before Robert was even buried, his 47-year-old widow gathered 40 top staffers in the company's Perth headquarters for a meeting. There, the new chairman vowed to continue building the conglomerate. "I have my plans, and I have my visions, and I want to achieve them with you," she told them during a brief address. Listeners say her speech brought some employees to tears.

But many wonder if Holmes à Court's abilities will match her resolve. She has long been active behind the scenes as Robert's confidante and was Heytesbury's deputy chairman. Company insiders describe her as highly intelligent and professional. And outside the family company, Janet has a reputation as a capable administrator through her work for educational groups and various charities. But running Heytesbury, a sprawling conglomerate with $660 million in assets (table), is a far bigger task than anything she has ever done. Australia's largest landowner, it has 32,000 square miles of pastoral properties that serve as grazing land for 320,000 head of cattle and about 70,000 sheep. Heytesbury also has extensive interests in Thoroughbred horse breeding, with stud farms in Australia and New Zealand.

In Britain, Heytesbury owns the Stoll Moss chain of 13 London theaters. It also owns 6.6% of Andrew Lloyd Webber's Really Useful Group PLC. Holmes à Court had hoped to use that stake to wrest control of Webber's Palace Theater. In a venture with French oil giant Société Nationale Elf Aquitaine, Heytesbury owns 5% of British agribusiness group Dalgety PLC. And in the U. S., it has a small stake in copper miner Cyprus Minerals Corp. Last year, Heytesbury reported earnings of $7.5 million.

'HANDS-ON.' Some analysts in Australia suggest Janet may be a figurehead, but Heytesbury executives say that's not the case. "She is an active, hands-on chairman," says Derek Williams, CEO of Heytesbury's British operations. "To describe her involvement mainly as a sort of cheerleader or PR adviser understates the position considerably."

Still in mourning, Holmes à Court has said nothing publicly about whether she intends to part with any of Heytesbury's holdings. Company insiders say she feels a sentimental attachment to all the properties and is unlikely to make any moves she believes her late husband would not have made. But gone, almost certainly, will be the former chairman's highly profitable share-trading activities, which often resulted in his receiving greenmail. This fiscal year Holmes à Court booked a $21.5 million profit on the sale of a stake in auction house Christie's International PLC. Whether Heytesbury could continue to prosper without such profits is a major question.

To some inside the company, a downsizing seems inevitable. Heytesbury has already been approached about selling the theaters, although the offer was rebuffed. And the chairman is unlikely to expand the company's media interests. Robert was fascinated by the media and toyed with becoming a major newspaper owner. In the months before his death he was buying up $5 million in junk bonds issued by John Fairfax Group Ltd., the debt-laden media conglomerate. But Janet, who deeply resented the treatment her husband often got from newspapers, is said by insiders to have no interest in the press.

She and Robert met at the Uni

HEYTESBURY HOLDINGS

Janet Holmes à Court has taken the reins at a company with assets worth about $660 million. An overview:

DALGETY PLC Its 5% stake of this British food group, shared through a joint venture, is worth $76.5 million

GLENPRAIER CATTLE RANCH Situated in Rockhampton, Queensland, it's valued at $6.6 million

HEYTESBURY STUD It includes three stud farms in Australia and one in New Zealand, home to about 180 horses

REALLY USEFUL GROUP PLC A 6.6% stake in this British entertainment group controlled by Andrew Lloyd Webber is worth $10.2 million

21 SOHO SQUARE, LONDON Site of Heytesbury's British headquarters, for which it paid $27.6 million last year

STOLL MOSS THEATERS Heytesbury owns 100% of this chain of 13 theaters in London's West End

YOUNG RIVER STATION This sheep-and-cattle property in Esperance, Western Australia, is valued at $6.6 million

DATA BW

HOLMES A COURT: LONG ACTIVE BEHIND THE SCENES

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versity of Western Australia, where he was studying law. He was debonair and a hit with women, former classmates say. By all accounts she was a brilliant student, majoring in organic chemistry, with a high profile in university politics. Her style was not as flashy as Robert's, but she was striking in looks, energetic, and admired for her intelligence. They were married in 1966, and Janet worked for three years as a science teacher. Although she raised four children, now ranging in age from 17 to 22, tending to Robert may have been her toughest assignment. For years she acted as his driver, secretary, clerk, and cook. In an interview, she once described her role as "dogsbody."

A RAIDER'S RISE. Robert saved his energies for becoming a tycoon. Over two decades, the South African-born financier built his empire and his reputation around two main operating companies—Bell Resources and Bell Group Ltd. By the mid-1980s, at their zenith, the companies controlled worldwide interests worth nearly $5 billion. In the U. S., the raider won notoriety through his acquisition and sale of large stakes in Texaco Inc. and USX Corp. But his empire was battered in the October, 1987, stock-market crash. Holmes à Court sold his Bell Group interests to archrival Alan Bond, who has since run into serious financial problems of his own.

Throughout his climb, Janet was deputy chairman of Heytesbury, a private holding company Robert formed early in his career. Just how much influence she had is unclear. She kept an office at the company and came in almost daily. Some insiders say Janet's chief activities were administrative matters such as approving expense claims. She made her strongest mark in activities unrelated to her power-hungry husband. During her four years as chairman of the Australian Children's Television Foundation, for instance, the nonprofit group has created several award-winning programs—and even turned a profit. She still chairs the organization and is also deputy chancellor of her alma mater.

Robert's death was apparently a crushing blow for Janet. The day after he died, she published a short note in the local paper. "My darling Robert, Thank you for 24 fantastic years and four wonderful children. You had such courage, wit, style, compassion, and integrity," it read. "Goodbye to my best friend." Fay Gale, vice-chancellor of the University of Western Australia, thinks the couple's closeness will help Janet in her new role. "She had an intimate understanding of the empire that he was building," says Gale. Translating that understanding into action will be the trick.

By Stephen Hutcheon in Sydney, with bureau reports

HEALTH

HERESY IN THE CANCER LAB

Biochemist Bruce Ames insists some carcinogens aren't so deadly

It is with some trepidation that you meet Bruce N. Ames over lunch. The bespectacled scientist is best known for exposing such innocuous ingestibles as peanut butter and comfrey tea as carcinogenic time bombs. Sure enough, in a restaurant near his University of California at Berkeley lab, Ames notes that the espresso he is sipping has "more carcinogens than you'd get from pesticide residues in a year." Yet he isn't trying to ruin the meal. "Do what your mother told you," he says. "All things in moderation, and eat your vegetables."

AMES: MEGADOSING RATS IS POINTLESS

It has taken the 61-year-old biochemist a lifetime of research, 250 scientific papers, and more than a dozen prestigious awards to state those conclusions with confidence. Over the past decade, in fact, he has become convinced that regulators, with the best intentions, have overreacted to the dangers of pollution and chemical exposure and have underrated risks from natural substances. As a consequence, Ames argues, the government should stop its expensive program of testing for, and ridding the environment of, minute traces of pollutants. That stance has made him a media celebrity—and a heretic in environmental health science. And now, an opinion column published in the journal *Science* is raising the clamor to new levels.

Ames's latest pronouncement, co-authored by colleague Lois Swirsky Gold of Lawrence Berkeley Laboratory, is that using rats to predict the risk of cancer is a "bankrupt" approach that should be abandoned. The scientists analyzed thousands of studies that used mega doses on rodents to see if cancer occurred. Combining this with data on cell damage, they concluded that the huge doses of chemicals, not their inherent tendency to damage DNA prompt tumors. That has added fuel to a heated debate over how best to test for cancer-causing chemicals (box).

UNNATURAL CAUSES. Ames's reasoning sounds logical. He argues that humans and animals have evolved mechanisms for processing low levels of carcinogenic natural substances that work just as well for synthetic ones. The body con

SOME OF THE SURPRISING SOUR

Biochemist Bruce Ames's HERP scale measures carcinogen hazards from n
may worry most about trace chemicals in drinking water, other common e

EXPOSURE	1 liter of polluted water	Cooked bacon (100g)	1 peanut sandw
CARCINOGEN	Trichloroethylene	Nitrites	Aflato
RISK*	0.004%	0.003%	0.03

*The HERP Index relates human chemical exposure to doses that cause cancer in rodents

antly repairs minor damage done to JA by natural assaults. But Ames inks that the huge doses of chemicals ven to rodents overload their defense echanisms. He therefore dismisses the sults of such tests and labels unneces-ry the efforts to get rid of trace ounts of pesticides in drinking water on vegetables. "We're diverting re-urces to trivia," he fumes. Better, he gues, to use the tens of millions spent ch year on such testing to fight well-own cancer risks such as smoking and gh-fat diets.

E MOLECULE. It's a startling turn-ound for someone who burst on the ene in the mid-1970s as a darling of vironmentalists. In those days, Ames lieved that just one molecule of a for-n agent posed a danger. He pioneered lab test to determine whether chemi-s caused DNA to mutate, making them tentially carcinogenic. A fire-retardant emical called Tris that was used to it children's pajamas was pulled off e market in 1977 when it flunked the mes test."

But in the early 1980s, scientists be-n putting natural chemicals, such as ose found in broccoli, through his test. ey, too, caused DNA to mutate. So nes developed a scale called HERP, for uman exposure/rodent potency," to k the dangers of natural and synthet-chemicals based on both animal tests d human exposure. It indicated that unpronounceable chemicals showing in drinking water were often less zardous than the natural agents peo-eat, drink, and breathe (table).

Since humans were actually living ger, Ames decided that his worry out single molecules was unfounded. fact, he concluded that at low levels, st chemicals are probably safe. The emical industry cheered, at least indi-tly. Says Byron E. Butterworth, a sci-ist with the Chemical Industry Insti-e of Toxicology in Research Triangle rk, N. C.: "Bruce Ames has always en on the side of good science."

That isn't what Ames's former fans saying. They contend that the HERP lex is flawed, particularly in comparing exposure to carcinogens in dried squid, for instance, with those in contaminated water or air. One involves a voluntary act, they note, while the other doesn't. Late last year, in a blistering review of Ames's work, *Consumer Reports* called his conclusions "simplistic." Janet Hathaway, staff attorney for the Natural Resources Defense Council in Washington, dismisses Ames's statements as "useful for a chemical industry embarrassed about the use of its products." Counters Ames: "Environmentalists get more members by selling fear."

But environmentalists aren't Ames's only critics. One highly placed National Cancer Institute researcher insists that abolishing rodent tests would leave the public at risk: "What are we going to do, wait to count tumors?" Richard Griesemer, who directs the toxicology division for the National Institute of Environmental Health Sciences, concedes that animal tests have flaws. But he says Ames is a lone voice advocating that they be shelved. "There's little data to support his view," he adds.

Still, Ames argues that as basic science uncovers more about cancer—he cites recent research in cell proliferation at the University of Nebraska—his position is being reinforced. He also dismisses the irony of his about-face: "People have the funny notion that scientists are certain about everything," he says. "Any good scientist has to change." And don't try painting him as a industry tool: Ames claims never to have taken a penny from industry, and does no consulting. He never patented the Ames test, which is still used in hundreds of labs.

A 'HOBBY.' Indeed, Ames's world revolves around science. He and his wife, Giovanna Ferro-Luzzi Ames, a Berkeley biochemistry professor, live close enough to campus to walk to work together. The door of his cluttered cubbyhole office is plastered with toxicology humor. "Health nut so scared of food additives," shrieks a tabloid headline, "he starves to death." Ames even describes his foray into environmental health as a "hobby." His serious work involves deciphering how damage to genes and cells contributes to aging and cancer.

Ames's arguments remain to be proven. But right or wrong, they underscore how little scientists know about the effect of chemicals on health. Even critics concede that a dearth of good data hampers efforts to rank risks. Until that changes, you can always hedge your bets: Avoid suspected carcinogens. And listen to your mother.

By Joan O'C. Hamilton in Berkeley, Calif.

ANCER RISK

l man-made chemicals. While the public arry more danger, he says.

aw room	Wine (250 ml)	Phenobarbital (1 sleeping pill)
azines	Ethyl alcohol	Phenobarbital
1%	4.7%	16%

DATA: BRUCE AMES

HOW ACCURATE ARE THOSE TESTS?

For 40 years, scientists have known that pesticides, solvents, and other chemicals can cause cancer. The problem is proving the link. With rare cancers, it's relatively easy. But with common ones, pinpointing the contribution of any one of thousands of causes is a herculean task.

That's where lab animals come in. Since harmful chemicals can't be tested on humans, rats and mice bear the brunt. But it might require thousands to pick up even a high 1-in-1,000 cancer risk at the low levels people are exposed to. By the mid-1970s, scientists had a new method: zapping rodents with massive doses. Many got cancer in tests of everything from the sweetener cyclamate to the pesticide Alar.

SKEWED RESULTS? But now, many toxicologists see flaws in those tests. The mathematical models used to extrapolate from animal to human data don't consider the human body's ability to repair DNA or the power of the human immune system. Substances that cause cancer in rats, for example, aren't necessarily potent human carcinogens—and vice versa. Also, there's some evidence that massive doses skew results: When doses are lowered and the number of animals increased, which theoretically should prompt the same number of tumors, the correlation breaks down. "We don't like the test results," notes Ernest E. McConnell, a Raleigh (N. C.) toxicology consultant.

Few scientists may agree with University of California at Berkeley biochemist Bruce N. Ames that high-dose animal tests should be junked. But the problems do have regulators in a quandary. Support is growing for a halt on relying only on animal tests to calculate cancer risks. But if regulatory agencies disclaimed them, chemicals identified as cancer-causing in the tests could be approved—and "there would be blood all over," says McConnell.

Scientists are optimistic that medical advances will eventually help identify cancer risks more precisely. Genetically altered rodents called transgenics, which better mimic human responses to foreign chemicals than natural animals do, show great promise. Still, it may take "25 years before we get it right," says Michael Gallo, a member of the National Academy of Sciences' Committee on Risk Assessment Methodology. Until then, massively dosed rats may be the next-best bet.

By John Carey in Washington

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Commentary/by John Carey

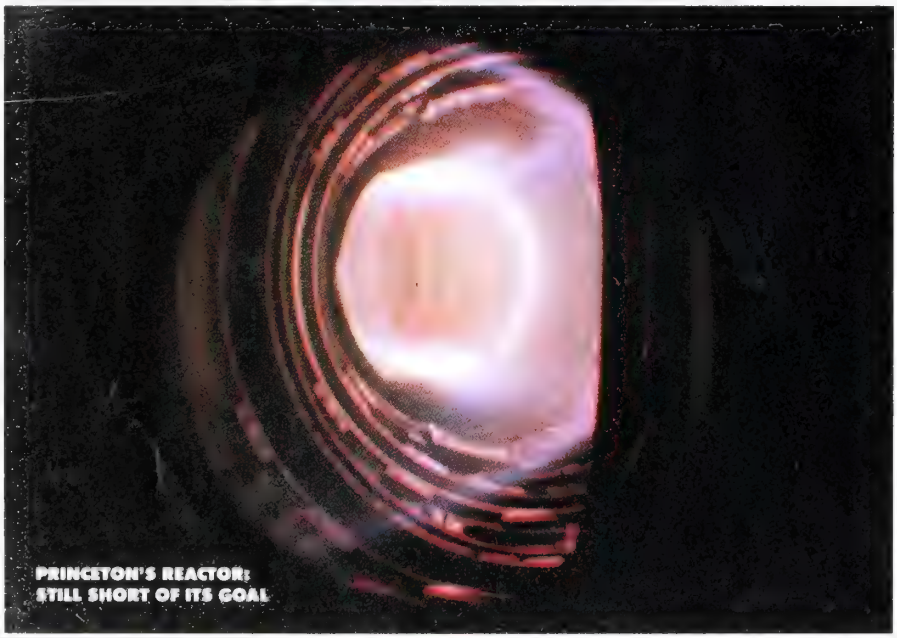
HOT FUSION IS BURNING DOLLARS—AND LITTLE ELSE

From the moment physicists began to ponder the idea in the 1940s, generating power with nuclear fusion—the same reaction that powers the sun—has held the promise of unlimited clean energy. But fusion has one other property: The more scientists learn about it, the more elusive it is.

In 1951, fusion pioneer Lyman Spitzer predicted a fusion power plant within five years. Seven years later, Amasa S. Bishop, head of the nascent federal fusion energy program, said that "with ingenuity, hard work, and luck," the U. S. could build a full-scale fusion reactor "within a decade or two." In 1971, Bishop's successor, Robert L. Hirsch, foresaw a demonstration plant by 1995. Now, guess what? Reporting to Energy Secretary James D. Watkins on Sept. 27, a high-powered advisory committee suggested hiking the fusion energy budget to build a demonstration plant by 2025 and a commercial reactor by 2050. "People have been saying, 'Fusion is 30 years away—and always will be,'" says University of Maryland physicist Robert L. Park. "Except now, it seems to be 60 years away."

In fact, there's no guarantee that even this prediction will come true. After 40 years and some $20 billion spent worldwide, no one is close to making electricity from tiny, man-made suns. So perhaps Watkins and Congress should look at fusion more realistically—and put it on the back burner.

What makes this decision so hard is the undeniable appeal of fusion power. Unlike today's nuclear fission plants, which make power by splitting the atom, fusion reactors would turn matter into energy when two atoms—typically, some form of hydrogen—fuse. This reaction itself produces no hazardous radiation. And its fuel can be as common as water. With fusion, says Edson C. Brolin, acting director of Princeton Plasma Physics Laboratory, "the top two inches of Lake Erie contain 1.6 times more energy than all the world's oil supplies."



PRINCETON'S REACTOR: STILL SHORT OF ITS GOAL

The Energy Dept. panel, led by H. Guyford Stever, a former National Science Foundation director, proposed nearly doubling funding for magnetic-containment fusion—in which fuel is held in a magnetic field—to $620 million by 1996. It also called for a steady increase in the $161 million budget for inertial-confinement fusion, which uses lasers to fuse atoms—in effect setting off tiny H-bombs.

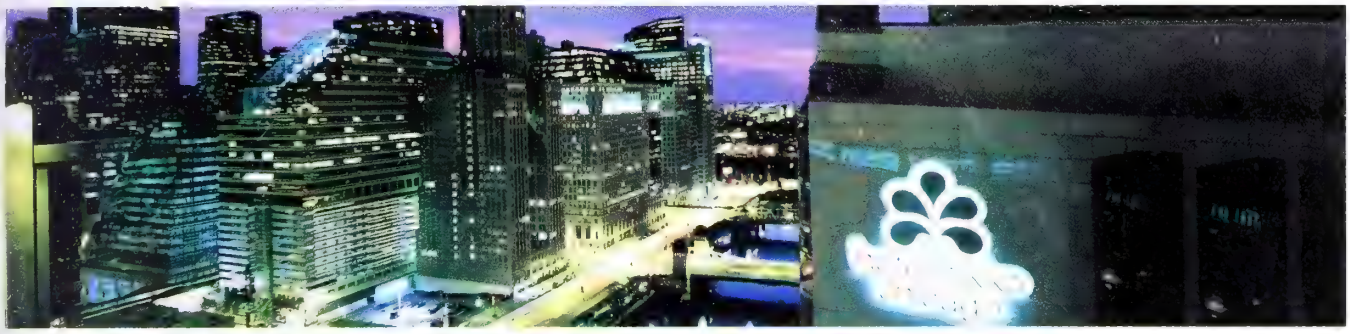
This money would buy a strong basic research program, a role in designing an international reactor to test engineering problems, and a new U. S. machine to explore the uncharted physics of ignition—the point at which the fusion reaction becomes self-sustaining. In today's experimental reactors, scientists must continually inject huge amounts of energy to force atoms to fuse. The new device, which would be built at Princeton University, would reach ignition by heating the fuel to hundreds of millions of degrees.

It would all be a great idea—if Washington had money to burn and fusion were just around the corner. But neither is so. In the next few months, magnetic fusion test reactors at Princeton and Abingdon, England, will probably reach a milestone known as "scientific breakeven." That's when the energy produced by fusion finally equals the amount of energy needed to heat the fuel. But breakeven is just a small step beyond what scientists can do now, and is mainly a way to drum up financial support. The really crucial milestone is reaching ignition, where scientists won't have to continue pumping in huge amounts of heat to keep the reaction going. Current machines can't reach ignition. And many scientists worry that it may be difficult even in future machines because the fuel may act unpredictably.

SPEWING NEUTRONS. Another barrier to be surmounted is fusion's environmental effect. Unfortunately, the process isn't as clean as advertised. While the reaction itself doesn't produce radiation, it does spew out neutrons, which turn almost any material radioactive. A recent congressional Office of Technology Assessment study estimated that the walls of a fusion reactor would have to be replaced every 5 to 10 years—though they would be much less radioactive than a fission plant's waste.

It might make sense to preserve the inertial-fusion budget, since it helps pay for Defense Dept. bombs. But it is harder to defend increases for magnetic fusion. In August, a National Academy of Sciences committee concluded that the U. S. would get more energy for its buck by improving conservation, exploring solar power, and making fission processes safer. "If we really want to make energy in the next 30 years," says California Institute of Technology physicist Steven E. Koonin, "fusion's not going to do it." Washington should put its money into something that will.

We're across from Atlanta's Financial Center, one block from Chicago's



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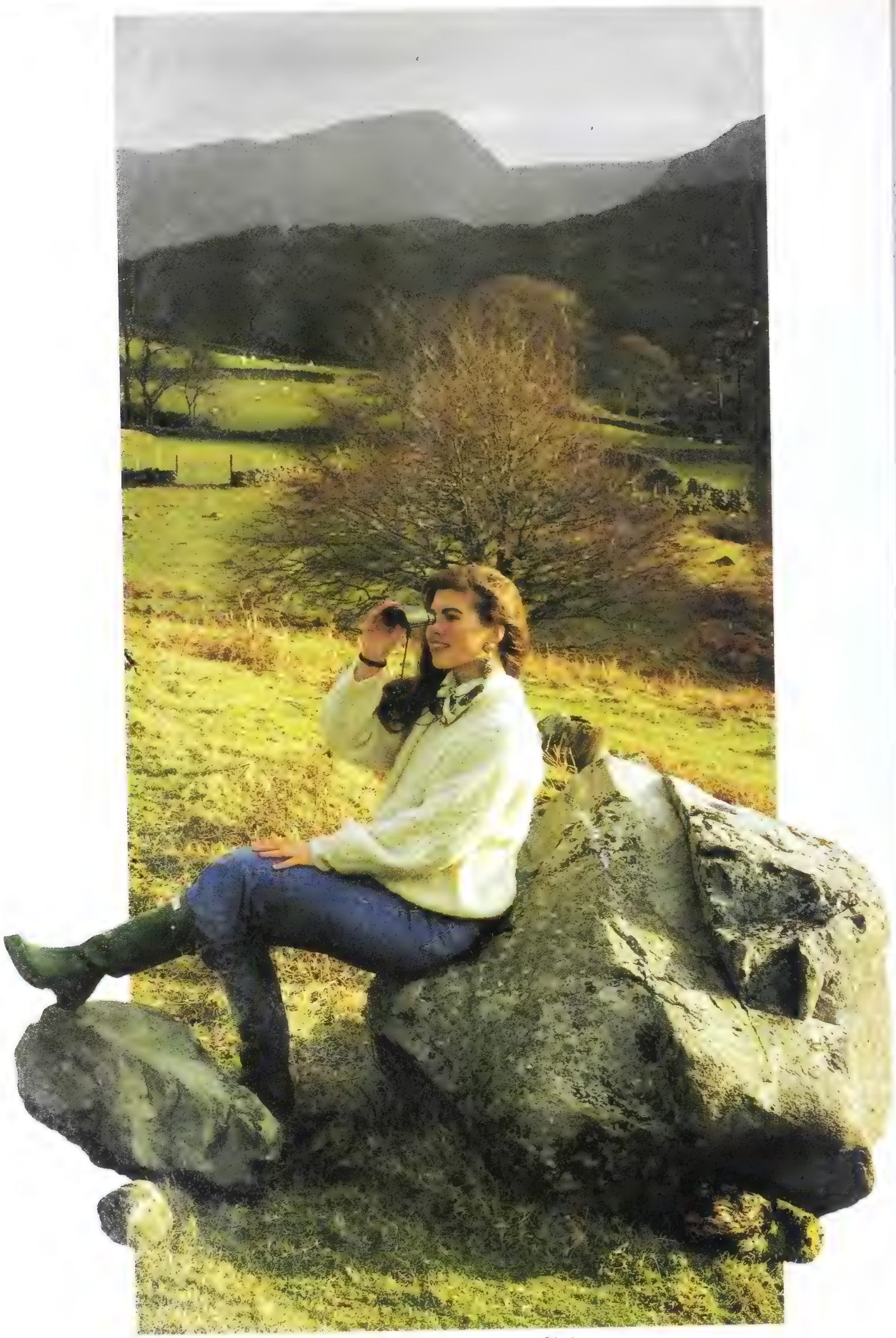

Joan Appleton... An "outdoor girl" looking forward to more commuting comfort.

Every year, Joan Appleton spends three weeks underground.

As a sales attendant at a world famous West End store, Joan Appleton depends on the London Underground to get her to and from work. She has to be there at nine o'clock sharp each morning. Six days a week. It's almost an hour from her home in Epping, 25 miles northeast. In a year, that makes over three weeks of travel time.

"That's life in this part of the world," she shrugs. "I'm basically an outdoor girl. I love fresh air and open spaces. But if I have to spend that much time underground, I'd like it to be as comfortable as possible."

She and her fellow passengers also appreciate punctuality as much as comfort; trains that run on time and don't get stuck somewhere along the line. Which, as Joan will tell you, hasn't always been the case. Europe's largest urban population is served by the world's oldest metro system, and it sometimes shows.

But that's changing. In a major renewal program, ABB traction technology is being applied in a project led by BREL Limited, ABB's UK associate, to supply 680 cars to London Underground's busy Central Line, enabling faster and smoother operation.

The result will be greater comfort, security and better service for London commuters. And Joan Appleton's underground quality of life will show a marked improvement.

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Developments to Watch

EDITED BY ROBERT BUDERI

A MAGIC BULLET TO COUNTER BIOLOGICAL WEAPONS

While U. S. troops in Saudi Arabia pack special clothing to fend off chemical weapons, Tran C. Chanh at the Southwest Foundation for Biomedical Research in San Antonio is closing in on a vaccine to combat another threat—biological warfare.

The immunologist has created a protein that mimics the fatal yeast toxin T-2, a biological poison that causes organ failure by halting the body's protein production. Injection of the decoy toxin, it is hoped, would force the body to create a defense against the poison, eliminating the need for protective gear. The idea might also be used against other kinds of bacteria or viruses. So far, Chanh's research, which is backed by the U. S. Army, has been conducted only on mice. Human studies are at least five years away, he estimates. In the meantime, Chanh is also researching vaccines against weapons such as nerve gas.

REINVENTING THE LIGHT BULB —BY SLASHING INFRARED OUTPUT

America is on a recycling rampage: newspapers, cans—and now light. A halogen lamp from General Electric Co. "recycles" the infrared (IR) light humans don't see but feel as heat: It uses the trapped energy to provide more visible light.

Infrared light accounts for 75% of a typical bulb's output. But GE's Halogen-IR bulb cuts the amount released by a third. A quartz tube within the bulb is coated with a special reflectant and shaped to focus the IR light back onto the filament—which burns hotter and produces more high-energy "usable" light. In late September, a commercially available floodlight version of the lamp won an award for new technology from *Research & Development* magazine. It not only outperforms a standard halogen lamp but is also 60% more efficient than normal incandescent lamps. At a cost of about $8, GE figures the lamp should save some $14 during its 2,000-hour lifetime. Researchers are now working to put the tube into household-shaped bulbs. They expect success within two years.

SPEEDIER SURGERY ON WORN-OUT ARTIFICIAL JOINTS

Hip replacement is a traumatic but widely successful option for patients crippled by fractures or congenital defects. Unfortunately, 40,000 implants must be replaced each year because artificial joints loosen. That leaves surgeons with an onerous task: chipping out the old cement holding the joint in place. It can take hours—and is especially dangerous for elderly patients whose bones have been weakened by osteoporosis.

Now comes the Cement Extraction System from Origin Medsystems of San Mateo, Calif. The reasoning is simple: Cement adheres best to cement. So Origin's kit contains new cement, which bonds to the old stuff. Surgeons then use a stainless steel rod to pull both old and new cement out in sma plugs. The company has booked some 500 orders since th $1,500 kits hit the market last March. Not only does th system reduce the risk of fracture, it cuts at least an hour o surgery time—a tidy savings, since operating rooms can ru $60 a minute. The shorter time also lowers the risk of infectio and fluid loss. And it allows surgeons to perform more proc dures each day.

COLD FUSION: SCIENTISTS MAY BE GETTING WARMER

In March, 1989, the University of Utah rocked the world b claiming that chemists had produced nuclear fusion on laboratory table. Most scientists remain skeptical, but th doesn't mean the idea of cold fusion and cheap, nonpollutin energy is dying. It may just require powerful atom-smashin type equipment instead of a simple electrolytic cell.

An international research team, led by Brigham Young Un versity physicist Steven E. Jones, has nursed this alterna type of cold fusion for a decade. Now, Japan's Institute Physical & Chemical Research, armed with a $12 million go ernment grant, is joining Britain's Rutherford Appleton La oratory to back the effort. The goal: to coax deuterium aton into fusing by loading them down with muons. Muons are lik electrons, only 200 times more massive. So if they replace th electrons orbiting deuterium atoms, gravity will pull the aton together. When they fuse, the muons will be kicked out catalyze more reactions. Each muon must trigger 500 suc fusions to liberate more energy than is used to create them the first place. Jones is up to 150, but the Rutherford lab designing a new pulsed generator that should double th fusion rate, bringing cold fusion much closer to reality—Jon guesses by 1993.

AT LAST, IDIOT-PROOF WAYS TO PROGRAM VCRs

Despite all the fancy features on today's VCRs, many are used just to play back movies. That's because viewers can't figure out how to record. Now, solutions to this problem are emerging on both sides of the Pacific: Next spring, Matsushita Electric Industrial Co. will launch a voice-programmable VCR. And a California startup has a way to greatly simplify programming.

The Matsushita VCR has a remote-control unit complete wi speaker and microphone—and asks for recording informati orally. The spoken response is confirmed on a tiny screen. B talk isn't cheap. The VCR will cost up to $200 more th standard models. And so far, it understands only Japanese

Meanwhile, Gemstar Development Corp. in Pasadena, Cali plans to offer VCR Plus, a $60 universal remote control th makes programming painless. Instead of setting the recordi time and day, viewers just enter a five-digit code that will r in newspapers alongside every TV listing. VCR Plus will be s by many electronics retailers starting in November. Codes w pop up about the same time in most major newspapers.

The planning report is stuck in accounting.
Sales data are still out in the field.
Inventory figures are stored at 1200 different sites.
The competition is on our heels.
Now tell me why our computers can't work
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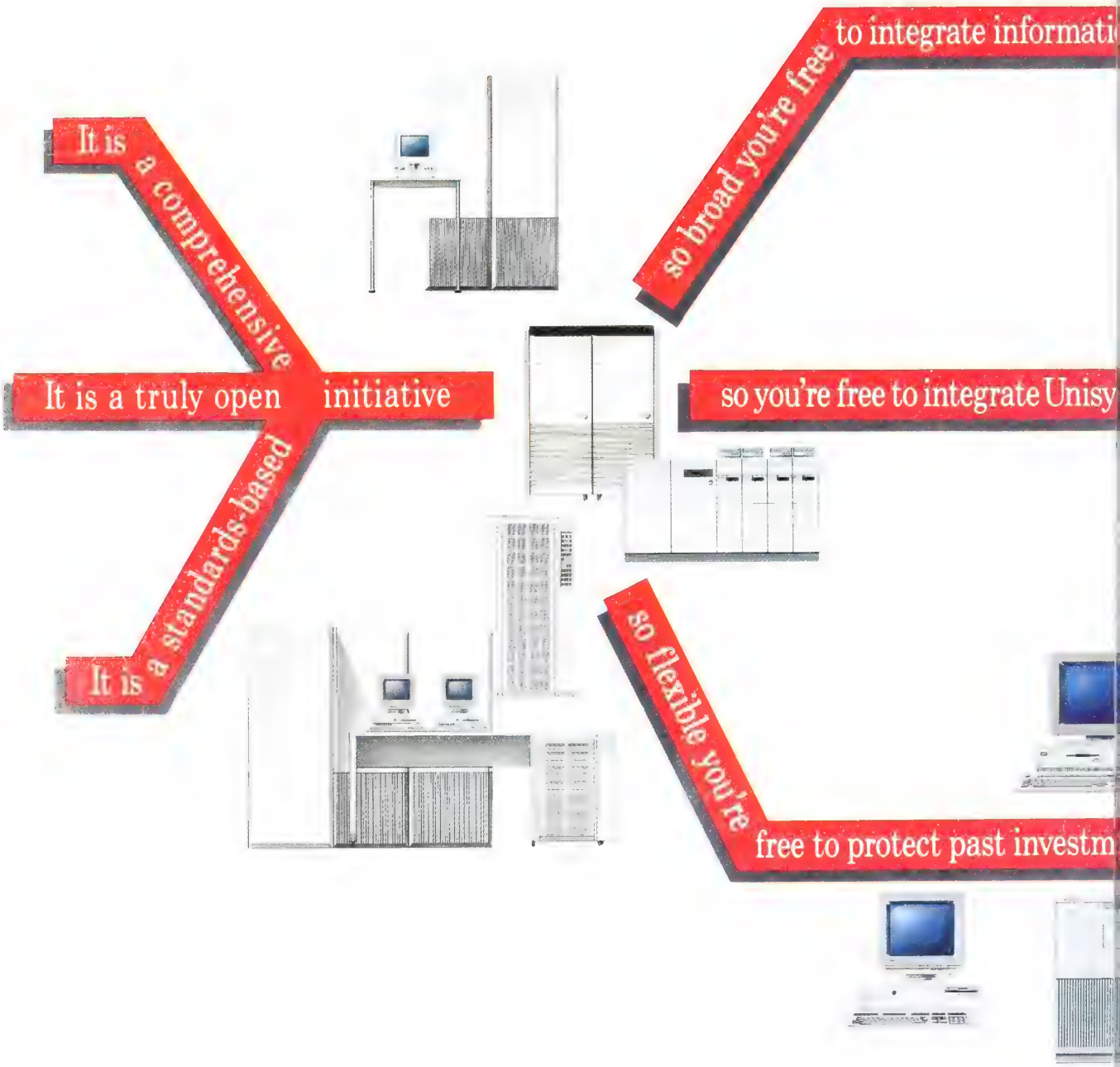

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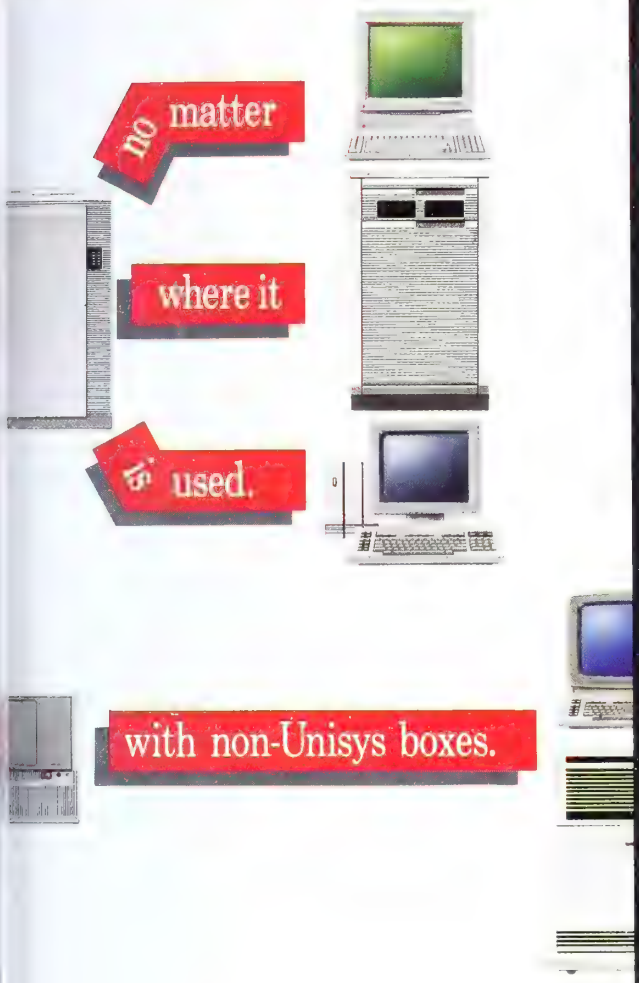

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ADVERTISING

CEO ROBERT LOUIS-DREYFUS: COUNTING ON NEW BUSINESS TO BUOY THE SUNKEN SHARES

CAN LOUIS-DREYFUS KEEP SAATCHI'S HEART AND SOUL?

If he can't appease bondholders, one of its ad giants may have to go

It was a deal worthy of Robert Louis-Dreyfus and his reputation for financial alchemy. The chief executive of Saatchi & Saatchi PLC would move his prestigious flagship advertising agency to the new Canary Wharf office complex in London's dilapidated Docklands. In return, Olympia & York Developments Ltd., the powerful Canadian developer behind the project, would arrange an investment of as much as $95 million in financially strained Saatchi.

But the plan collapsed in mid-September. O&Y's owners, the Reichmann brothers, under pressure themselves, concluded that Saatchi was a bad risk. For Saatchi, the failed deal is a severe blow to an effort to repair its finances. Without the investment, Louis-Dreyfus still has the daunting task of restructuring the company without his major investors and lenders force him to do what was recently unthinkable: sell off one of Saatchi's two huge ad networks—Saatchi & Saatchi Advertising Worldwide or Backer Spielvogel Bates Worldwide Inc. Among several options he is considering: attracting an equity investor or issuing new shares.

Saatchi's fall from grace started when its founders, Maurice and Charles Saatchi, used its once high-flying stock to fuel an acquisition spree. The result was a stable of unwanted consulting firms and half a billion in debt. After the brothers installed Louis-Dreyfus as CEO last January, the unflappable Frenchman trimmed the debt to $389 million through asset sales and tighter financial controls. He also forced out several Saatchi cronies, while the brothers accepted supporting roles. Still, analysts predict that pretax earnings for the fiscal year ended Sept. 30 will drop about 50%, to $55 million. But excluding the consulting units and interest payments brightens the picture: The operating income of the ad networks dipped only 5%.

SUFFOCATING DEBT. Not bad—but it hasn't been nearly enough. The company's stock was trading in London at $4.86 when Louis-Dreyfus took the helm. Now, it's down to penny-stock levels, closing at a recent 68¢. "The market is saying the probability of bankruptcy is 50/50," says Brian Sturgess, an analyst at Barclays de Zoete Wedd Ltd. in London. Investors fear that softening ad markets will impede Saatchi's effort to pay down more of its suffocating debt.

A special bond issue puts Louis-Dreyfus in his most painful quandary yet. If he can't raise the stock price to $9.88 a share by mid-1993, he must pay holders of Saatchi convertible bonds $400 million in cash—which he doesn't have. "This worries us," says a Saatchi banker. "We would like them to get rid of that bullet." That puts the pressure on Louis-Dreyfus to find a new equity investor or other source of capital. Otherwise, the stock will continue to languish.

Even though the possible $400 million payment is still nearly three years away, some financial cleanup is needed soon because of the insidious effect investor uncertainty is having on Saatchi's core ad business. "Companies have said: 'Until the cloud passes at the parent, we don't want to consider a Saatchi & Saatchi agency,'" says Backer Chairman Carl Spielvogel. At flagship agency Saatchi & Saatchi in London, Chairman Bill Muirhead had to issue an internal memo on Sept. 25 to deny a rumor that the company was going out of business. And in New York, Edward L. Wax, CEO of Saatchi & Saatchi Advertising Inc. says the parent company's difficulties make it difficult to offer attractive financial incentives to top staffers.

Louis-Dreyfus figures he still has 18 months to raise money—possibly for a partial cash payment to induce bondholders to lower the exercise price of $9.88 on the 1993 bonds and push the conversion date back. But some bankers think that in the rapidly worsening investment climate, he has much less time to act. Otherwise, he could be forced to break up the company. One of the bankers in the 20-bank syndicate that a

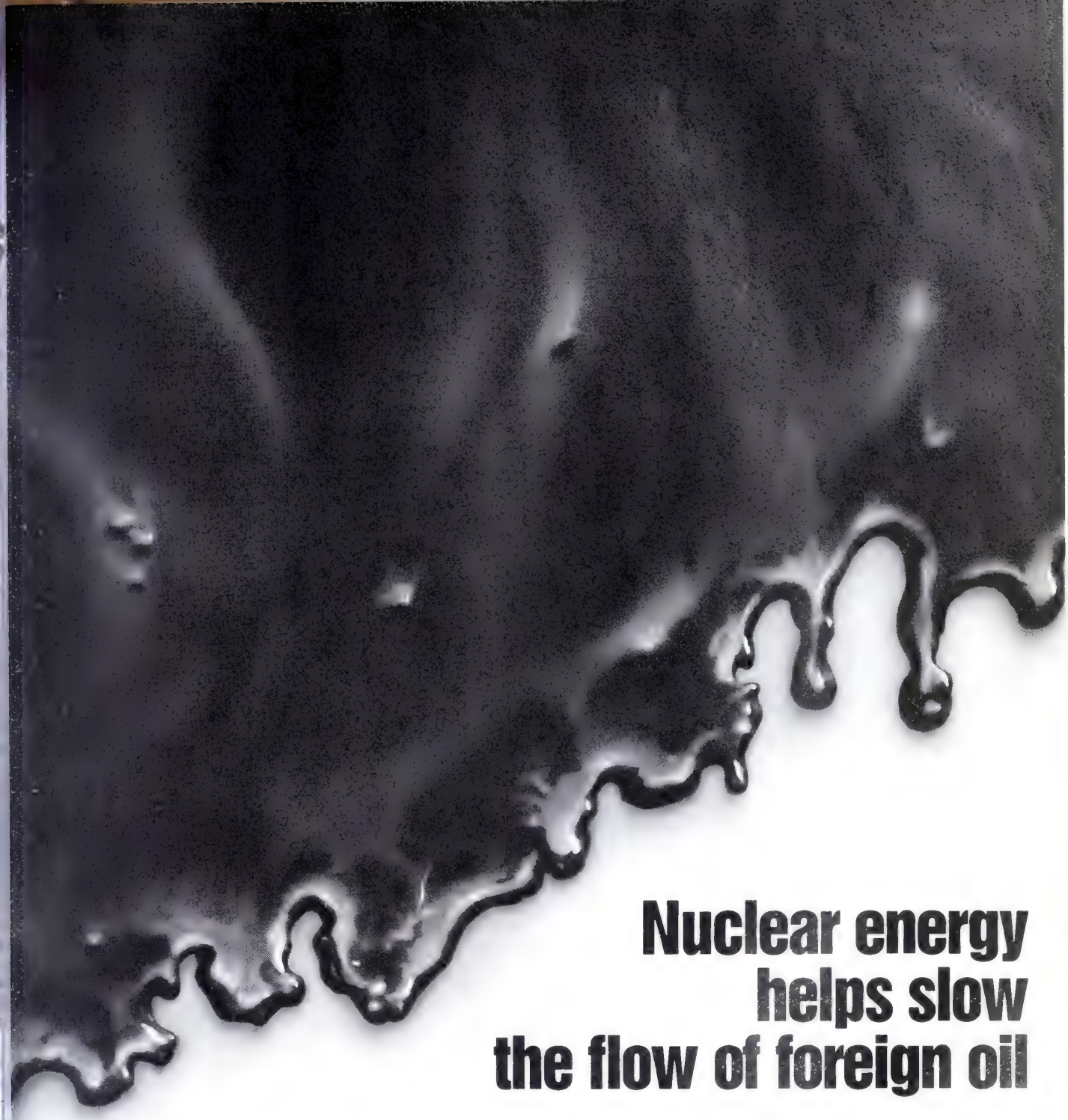
THE SAATCHI FIRE SALE

Here are the major consulting subsidiaries that Saatchi & Saatchi has been selling back to managers since June, 1989:

Subsidiary	What Saatchi paid	What it got
	Millions of dollars	
CLEVELAND CONSULTING ASSOCIATES	$5.5	$5.2
INFORMATION CONSULTING GROUP	31.0	12.0
HAY GROUP	132.0	75.0*
PETERSON & CO.	123.0	–3.0**
GARTNER GROUP	85.0	PENDING

*$65 million up front, $10 million of payment deferred over 10 years
**Took a $3 million loss after writing off intercompany loans

DATA: COMPANY REPORTS; GOLDMAN, SACHS & CO.



Nuclear energy helps slow the flow of foreign oil

Unrest in the Middle East has once again put America's national security and economy in danger.

We now import more than half of all the oil we use, much of it from the Middle East. But nuclear energy can help us reduce this excessive dependence on unstable sources. Our 112 nuclear electric plants already have cut foreign oil dependence by 4.3 billion barrels since the 1973 oil embargo, and continue to cut our oil imports by 740,000 barrels every day.

Nuclear energy is a clean and safe energy source that we can count on, one not endangered by turmoil in the Middle East.

For more information, write to U.S. Council for Energy Awareness, P.O. Box 66080, Dept. ME26, Washington, D.C. 20035.

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Nuclear energy means more energy independence.

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The American luxury car ha

Chrysler Imperial

*1990 Second Quarter Buyers Study by Consumer Attitude Research, C.A.R. classification Large Luxury

new standard of quality.

In its first year of production, Chrysler Imperial has been given a higher quality rating than every Cadillac and every Lincoln in its class.

— Second Quarter Buyers Study by Consumer Attitude Research

Some cars take years to establish their credentials for superior quality. If they ever do. Chrysler engineers so scrupulously prepared the Imperial that by the time of its launch into the real world it was ready to make its reputation for high quality at once. Against all the traditional American luxury cars in its class.

The hard proof that we've succeeded comes from a recent independent buyer perception survey by Consumer Attitude Research. It shows Chrysler Imperial has the highest quality rating of any American car in its class. That includes Cadillac and Lincoln.

Chrysler was able to change the standards by which American luxury cars are judged for one very simple reason: We obviously live by higher standards.

Advantage:Chrysler.

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anged a $450 million loan earlier his year says that selling one of he main agencies "has crossed ev- ry banker's mind" but hasn't een pressed yet.

Louis-Dreyfus has no sentimen- al ties to the agencies. Before oming to Saatchi, he turned round a medical-data company, MS International Inc., and prompt- y departed when it was sold. To his professional fixer, even the ondon agency, which Maurice nd Charles started in a basement n 1970, may not be off-limits to idders.

ALTRY TAKE. But Louis-Dreyfus s adamant that a public auction nakes no sense in a distressed narket. As evidence, he points to the altry amounts realized from the deci- ion by Saatchi's previous management o sell its consulting firms (table). When hey were first put on the block in mid- 989, the company predicted sales of up o $500 million. Now, with most of the ight firms sold, the take is more like 170 million, even with deferred pay- nents, and Saatchi has written off as nuch as $190 million.

So Louis-Dreyfus needs the discipline of a high-wire artist: He must keep scrambling for more capital while resisting the temptation to take any more fire-sale prices. Last month, for example, he rejected a "single-digit" management-buyout bid for corporate image consultant Siegel & Gale Inc. Several months ago, he quietly entertained proposals to buy Backer. Nothing has come of the talks, but one potential buyer, France's Eurocom, says it's still interested.

Louis-Dreyfus is relying on the resil- ience of his ad agencies to weather the current downturn and start snaring new business. The London agency tops the list of new-busi- ness winners among British shops. It has also won plaudits for its British Airways PLC campaign, which assembled a cast of hun- dreds in the Utah desert to cele- brate world unity. Saatchi's New York agency is also on an up- swing. But Backer's U. S. opera- tion has lost accounts worth $125 million, including Prudential Insur- ance Co. and Xerox.

The agencies' strength makes some observers guardedly optimis- tic. Says Alan J. Gottesman, an analyst at PaineWebber Inc.: "It's like looking at a guy cut open on the operating table. You wouldn't pick him to be on your team, but six months from now, he might be a whole lot better."

Louis-Dreyfus insists that his costs are under control and sees real improve- ment. "I'm still convinced we can pull through if people support us," he says. With a worsening advertising climate, that support will be sorely needed.

By Richard A. Melcher in London and Mark Landler in New York

A BRITISH AIRWAYS AD: PLAUDITS FOR THE FLAGSHIP

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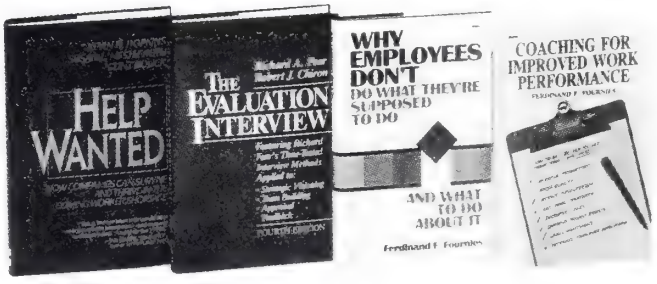

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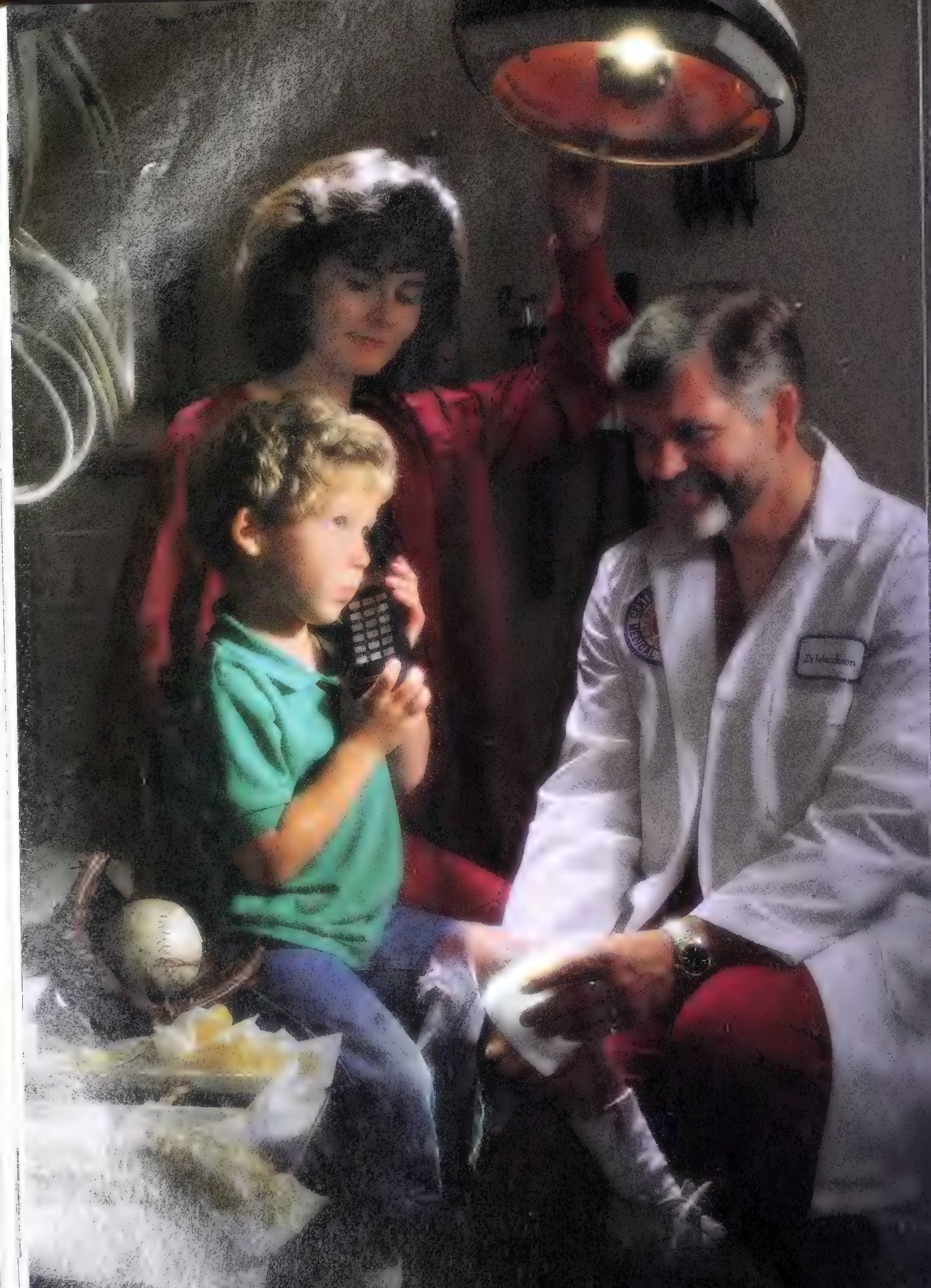

HOW FUJITSU HELPS A BIG HOSPITAL STAY SMALL.

Saint Cloud Hospital in central Minnesota is a regional medical center serving a population of more than 425,000 in a ten-county area covering more than 7,500 square miles. It's a highly progressive, rapidly expanding institution with hundreds of doctors, comprehensive services, and an attitude of intense human concern. Patients are never numbers, they're people. And they are treated like people. For all its size, Saint Cloud Hospital still feels 'small'.

CARING INTIMACY

The hospital has worked very hard to ensure an environment of caring intimacy, developing many special programs and procedures and investing heavily in technologies that free its people to focus on people.

One current investment is in hundreds of portable and mobile cellular telephones to give the hospital instant two-way communications with its on-call staff. The phones have put doctors and nurses in touch as never before, and have begun to find a wide range of unexpected uses for themselves —like letting emergency room patients reassure loved ones directly from a moving hospital gurney.

SELECTED FUJITSU

Saint Cloud Hospital, working with its service provider, United States Cellular, studied a variety of cellular telephone brands before it finally settled on Fujitsu. It chose Fujitsu not only for the quality of its telephones but for the quality of the company behind them. Fujitsu is one of the world's largest computer and communications companies—a high-tech powerhouse that's a major force in the global information revolution. With 115,000 employees, projects completed in a hundred countries, and manufacturing facilities across the U.S.A., it's a company that's many things to many different people. To the people at Saint Cloud Hospital, it's a giant that's helping them stay small.

Gary Gibson of Fujitsu talks with Bill Becker of Saint Cloud Hospital and Joe Salaski of United States Cellular Mobile Telephone Network. United States Cellular, a nationwide carrier which operates the cellular network in St. Cloud, Minnesota, strongly recommends Fujitsu phones. For information call Fujitsu at (214) 690-6000

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STRATEGIES

AUDI FINALLY GETS SOME TRACTION

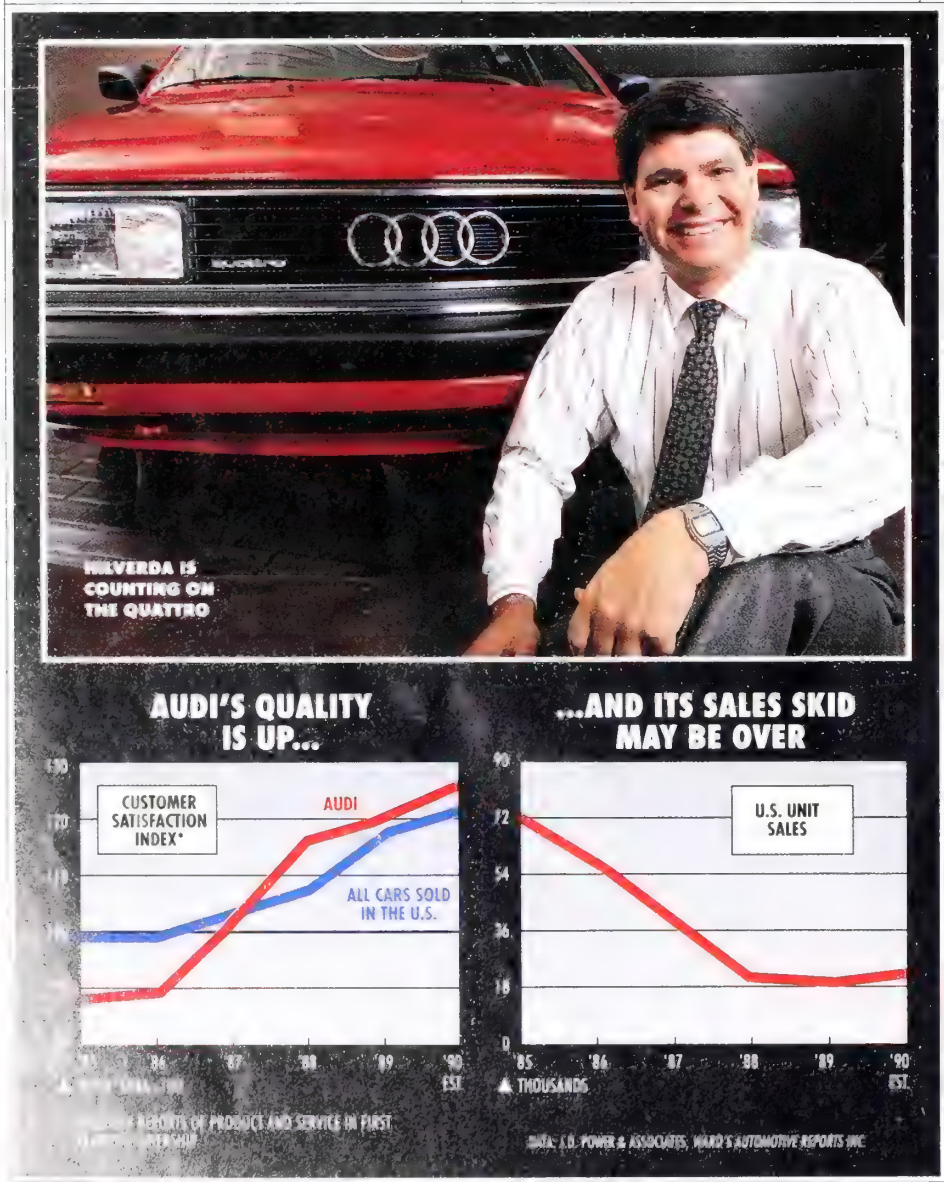
Its leasing program is luring back U.S. drivers—but not profits

Desperate times often call for desperate measures. Executives at Audi of America Inc. watched in dismay as charges that their cars were prone to sudden, uncontrolled acceleration drove U. S. sales from a 1985 peak of 74,241 cars to a woeful 21,225 in 1989. In a last-ditch effort to halt the slide, they launched a generous new leasing program and free-maintenance offer.

The moves appear to have finally brought Audi's skid under control, pushing car sales for the first eight months of 1990 some 6% ahead of a year earlier. But the price has been high. Despite the increasing sales, the costly incentives—combined with the weak dollar—will likely keep Audi's U. S. operations in the red this year. And the company's profits could suffer even worse damage when the leases expire years from now.

Still, Audi had little choice but to tak a chance. Press reports of wildly acceler ating Audis, such as the one that alleg edly ran amok and killed a six-year-ol Akron boy in his own driveway with hi mother at the wheel, tarred the compan as a maker of unsafe, unreliable cars. National Highway Traffic Safety Admir istration (NHTSA) investigation last yea exonerated Audi, blaming the incident on drivers who inadvertently hit the ga instead of the brakes. But Audi's ow research confirms that consumers sti consider its cars generally unsafe. Th bad publicity "hurt us, and hurt us bac ly," says Richard L. Mugg, a longtim marketing executive at Audi's U. S. pa ent, Volkswagen of America Inc. He be came head of Audi of America in 1988

Even though the U. S. accounts fo just 5% of Audi's sales, Volkswagen ha a lot riding on an Audi comeback Squeezed by Japanese competitors U. S. sales of Volkswagens sank fron a 1970 peak of 570,000 to just 128,00 last year. But with baby boomer moving into their prime earnin years, sales of larger luxury models such as Audis, will likely swell t about 1.6 million cars in the mid-1990s up from 1.4 million today.



PAMPERED. With its offer of attractiv short-term leases and free routin maintenance on all new Audis, th company hopes to persuade drivers t climb back into its cars. The lease which Audi calls "three-year tes drives," require no downpayments compared with the hefty 10% to 20 some luxury cars demand. And th monthly payments sharply undercu the competition. Leasing a $31,00 Audi 100 costs about $500 a month compared with about $700 a mont for a $33,000 BMW 525i. Audi picks u the tab for all routine maintenanc right down to oil changes and ne wiper blades, on both leased and pu chased cars for three years or 50,00 miles. The program "is a great way c restoring confidence," says Ronald Loshin, president of Bank Lease Co sultants Inc. in San Leandro, Calif.

The leases are starting to brin drivers back. Two years ago, 20% c Audi's U. S. car transactions wer leases. Now, 44% of its new cars ar leased, compared with just 25% fo BMW. But they're likely to hand Au a loss on its U. S. sales of about $ million this year. And the sharpes sting from the leasing program coul come when the leases end. At tha point, the company has to take bac and resell the used cars. Ominously Audis have the highest depreciatio

ate among imported luxury cars. A our-year-old Audi is worth only about 5% of what it cost new, compared with 5% to 50% for a Mercedes-Benz. Audi xecutives say upgrading quality will nprove resale results and prevent sses on the tail end of the leases.

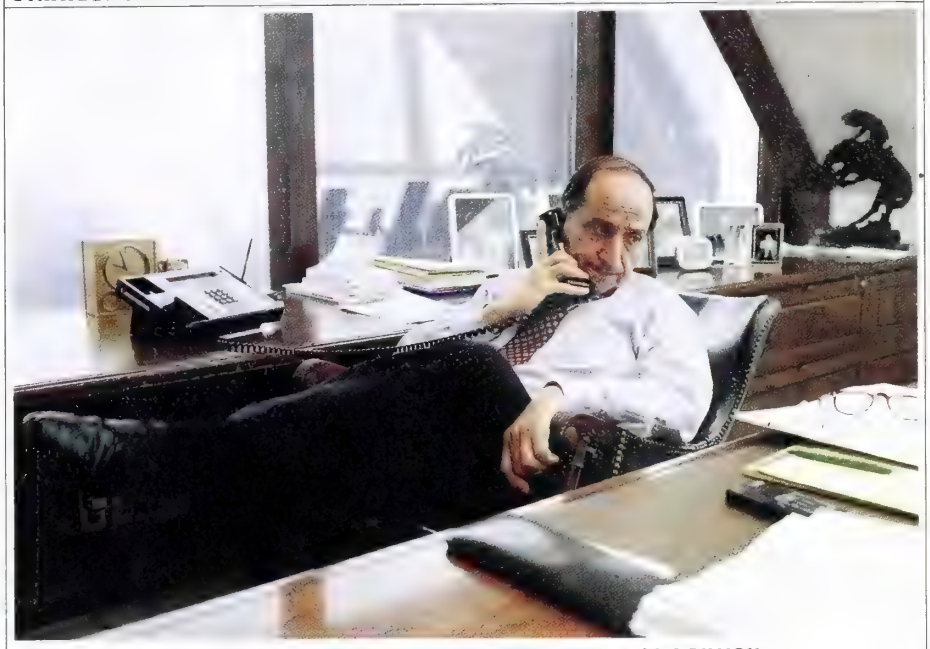
ETURN CUSTOMERS. Audi is taking the sk in hopes that leasing customers will e so happy that they'll choose an Audi ext time. In fact, Audi's customer satisaction has improved markedly since 985 (chart). And customer loyalty is on ne upswing, too. One-quarter of the eople who traded in late-model Audis ecently drove away in new ones. That ompares with just 10% of those who aded in 1985 Audis. Audi's quality, nce notoriously poor, has improved, too. he number of defects in Audis has deined 26% in the past three years, acording to a survey by California-based . D. Power & Associates Inc. Still, the ntire industry is improving, leaving Ui's quality no better than average.

Audi is also improving its safety imge. When the NHTSA smashed a 1990 udi 100 into a wall at 35 mph, the airag-protected mannequin in the driver's eat recorded the lowest damage ever in uch crash tests. The passenger mannequin came out rather worse for the expeience, but Audi says it will offer passenger-side air bags by the mid-1990s. our-wheel drive is available on all Ais, and antilock brakes are standard on ll but one model.

To lead Audi's new marketing charge, ne company named a new marketing anager, Ben A. Hilverda, on Sept. 1. lilverda, a 42-year-old former market esearcher at General Motors Corp. who oined VW in 1977, plans a new ad campaign starting in January that will emhasize Audi's German engineering. Hilerda will have a slew of new products o tell drivers about. One, the $42,400 urbocharged 200 Quattro, which leaps o 60 mph in 6.5 seconds, debuts this fall. lilverda expects the car to bolster Ui's image as a maker of performance edans. Next year, Audi will introduce a edesigned six-cylinder version of its baic sedan, the five-cylinder model 100. A onvertible and a fuel-efficient, all-alumium sedan are planned for around 1993. lilverda says he expects the efforts to oost sales to 45,000 to 50,000 cars by he mid-1990s.

Of course, every major carmaker vants a chunk of the lucrative U. S. luxry market. And the race is only getting ougher as the Japanese, with their Acura, Lexus, and Infiniti models, are aking a chunk out of such once-invincible European cars as BMW and Volvo. With its high-risk, high-cost effort to ure back customers, Audi is only buying tself a slot at the starting gate.

By David Woodruff in Detroit



STONE CALLS CONSOLIDATED-BATHURST "AN IDEAL FIT"—EVEN AT $2.2 BILLION

SUDDENLY, STONE CONTAINER FEELS BOXED IN

It made its biggest buy at peak market. Now, it may be overleveraged

It seemed Roger W. Stone couldn't miss. Using Drexel Burnham Lambert Inc.'s clubby junk-bond network, the chairman of Stone Container Corp. spent $1.8 billion on four acquisitions in the mid-1980s to transform a sleepy paper company into the world's largest producer of corrugated boxes and paper bags. His strategy made splendid sense: During cyclical downturns, he snapped up troubled U. S. competitors at cut-rate prices using borrowed money. When business rebounded, Stone quickly worked down debt to a reasonable level—and hunted for the next trophy.

Then, the acquisitive Stone became taken with Consolidated-Bathurst Inc., a $2 billion Canadian newsprint and paper-products maker with extensive European operations. Stone was lured by the prospect of getting into Europe before trade barriers are eased in 1992 and of boosting his company's position in the newsprint business. He borrowed $2.7 billion—more than triple the amount of earlier deals—to buy the company in March, 1989. Yet Stone made his move not as the newsprint industry was in a slump but just as it hit its peak. "It did depart from the pattern," admits Stone. "But it was an ideal strategic fit."

Perhaps. But for the moment, the deal places the $5.8 billion parent in a financial jam. Almost as soon as the Consolidated-Bathurst deal closed, the paper business plunged into what could be a prolonged downturn. Stock analysts and rivals believe Stone paid too much to buy into newsprint, a business he had little experience in. The company is now highly leveraged just as prices for its key product lines are tanking and cash flow is drying up. Stone has responded by trimming staff, slashing capital expenditures, and raising prices on key paper products. But the company may yet come up short of cash to service its debt. "There's very little room for error," warns Nelson Noel, a credit analyst with Moody's Investors Service Inc.

STEEP PLUNGE. No wonder Stone's investors are starting to feel closed in. The company's stock has lost 57% of its market value so far this year, a far steeper plunge than either the 35% decline in paper stocks overall or the 38.6% drop in the Standard & Poor's 500-stock index. Cash is tight, and interest coverage is razor-thin (chart, page 83). That's why Moody's has just downgraded a big chunk of its debt. And some on Wall Street wonder about Stone's ability to make principal payments on the $3.6 billion in long-term debt belonging to the company and its subsidiaries, about 22% of which consists of high-interest junk-bond debt. Stone insists the company has "adequate" cash and credit lines to deal with the load.

Still, investors were hardly reassured

A long-ago train whistle is helping

In 1842, Christian Doppler made a curious discovery.

He noticed that a train whistle going away from him had a lower frequency than when it was coming towards him.

This fundamental became known as the Doppler effect and led to the development of Doppler radar.

Now Raytheon is using Doppler radar to detect wind shear.

A sudden downdraft of air from the sky, called a microburst, produces wind shear that is particularly dangerous for aircraft during takeoff and landing.

More than a dozen airline crashes in the last twenty years have been attributed to wind shear.

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Where quality starts with fundamentals

in September, when Stone was forced to postpone a $200 million junk offering because of weakness in the junk market. Nor can investors find much solace in Stone's first-half profit plunge of 44%, or the anemic earnings it's likely to post for the year—an outlook that has attracted short-sellers.

How did Stone stumble so badly? "Clearly we were overconfident," says Sidney Davidson, a University of Chicago accounting professor who retired from Stone's board in May. "We made a decision that at least in the short run seems to have been wrong." Adds Henry G. Van der Eb, retired chairman of rival Container Corp. "Roger Stone might wish he hadn't reached so far."

He says he doesn't. But then, Stone has been reaching almost all his life. Growing up in a prosperous part of Chicago's South Side, he wasn't content just rooting for the White Sox at Comiskey Park—he fantasized about owning the club, friends say. That dream hasn't come true yet. But he has done well running the show at his Chicago-based company: Earnings grew at a compound annual clip of 34% last decade.

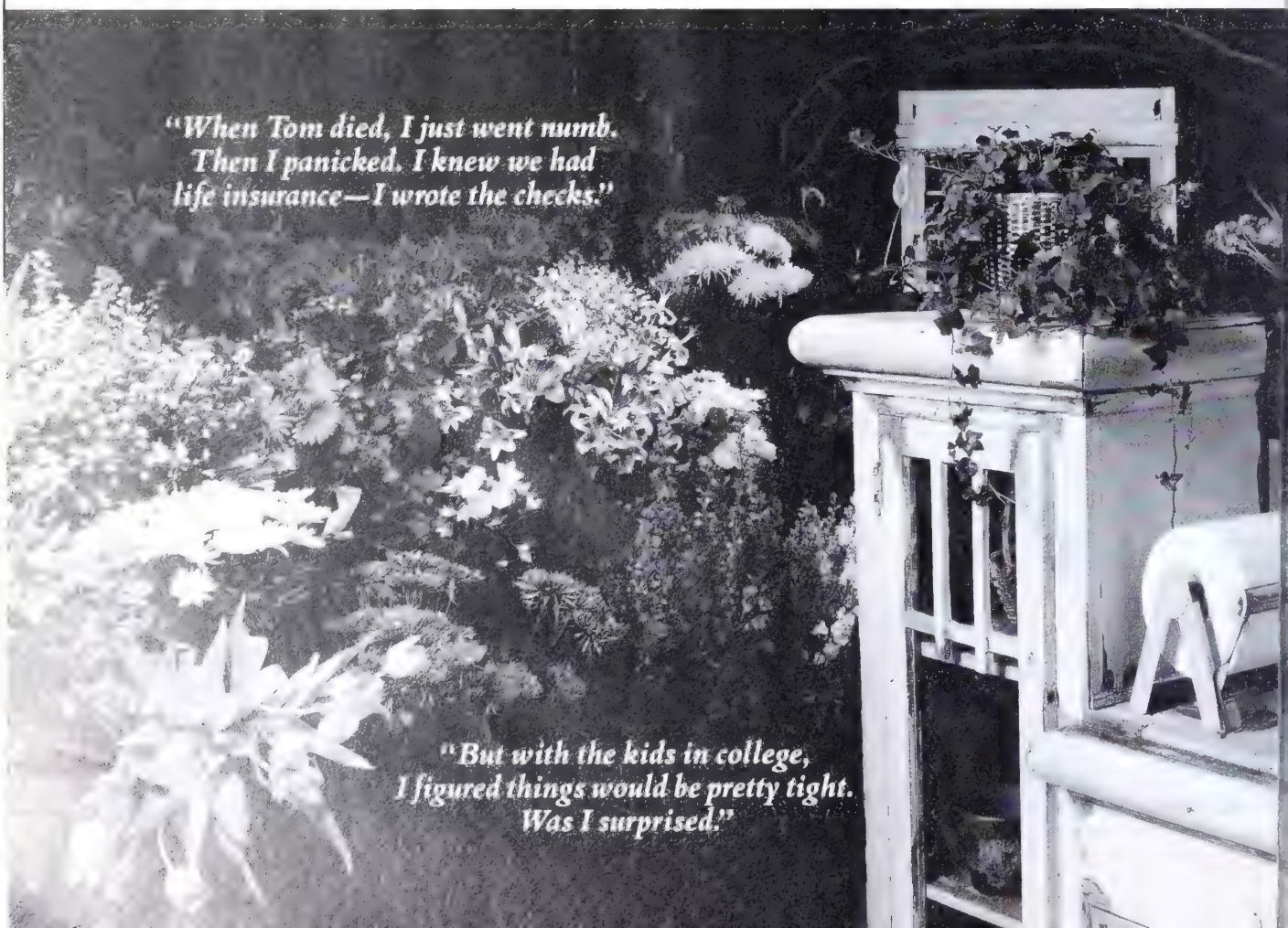
Stone certainly displayed his drive in going after Consolidated-Bathurst, known informally as Connie. In 1988, he first approached Paul Desmarais, chairman of Power Corp. of Canada, an investment holding company that owned a 40% interest in Connie. The two came close to a deal for Power's stake, but Desmarais hoped to merge with a Canadian rival. In the end, though, Desmarais sold a 10% stake to the Kuwait Investment Office in mid-1988 and sat tight.

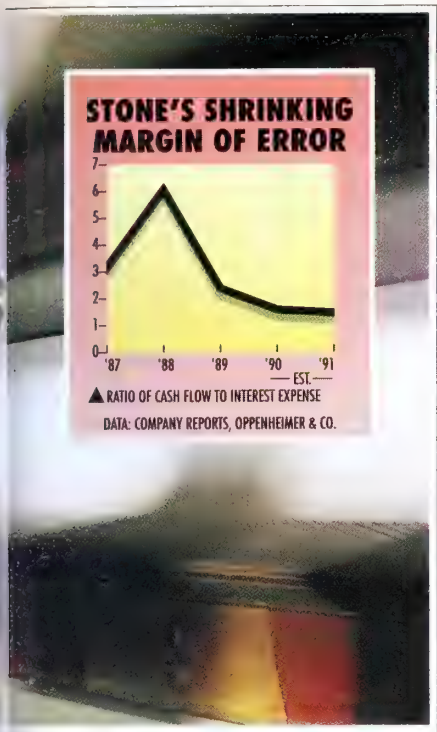
'NONSENSE.' Undeterred, Stone made a second pass at Connie in early 1989. This time, recalls William I. M. Turner, Connie's chairman at the time and still a Power director, Stone seemed "anxious" to make a big Canadian acquisition. "He had a lot of successes up to that point in buying companies," Turner says. Stone offered $2.2 billion in cash, a 50.4% premium over the market value. Connie immediately accepted the bid.

Stone dismisses criticism that he was overeager as "utter nonsense." But he admits that he missed signs of the impending market downturn. Perhaps his biggest misstep was assuming that the price of newsprint would continue to climb. Since the deal closed, newsprint prices have fallen from about $600 a ton to below $580. Stone also acknowledges

A NEWSPRINT MILL AT CONSOLIDATED: THE I

that Connie was an unusually expensi acquisition. In his past four deals, he h generally bought paper mills and oth assets for a price that represented abo 20% of their replacement cost. For Co nie's assets, that figure is more like 45





AT THE START OF A PROLONGED DOWNTURN

All the same, Stone notes that Connie as given the company a stronger foot-ıg in the faster-growing European pa-er markets. And Stone says he and his ıvestment banker didn't miscalculate. 'hey paid 11.2 times Connie's earnings, roughly in line with the 11-to-1 ratio Georgia-Pacific Corp. dished out for its acquisition of Great Northern Nekoosa Corp. in June.

Still, Stone probably could have landed Connie for considerably less had he waited for the downturn in the newsprint and paper market. Indeed, Stone executives say Connie's income and cash flow have fallen far short of the levels they anticipated when Stone borrowed heavily to complete the deal.

STOPPING THE SLIDE. Worse, Stone's principal business is under pressure. The price of linerboard—the main material used to make corrugated boxes—has faded from its 1989 peak of $410 a ton to about $360. Linerboard and corrugated boxes represent about 60% of Stone's total sales.

That's especially troublesome given Stone's current balance sheet. The company's debt load is about 71% of its total capitalization. Cash flow, which amounted to six times debt interest costs in 1988, is down to a 1.6 multiple now. Stone needs to cut capital expenditures quickly, sell off assets, or stretch debt payments, figures Oppenheimer & Co. analyst Gary Palmero. Otherwise, he projects, the company could face a cash-flow shortfall of up to $325 million this year, when it has to meet a total debt-service burden of about $718 million.

Stone isn't dawdling. In July, he quietly instituted a hiring freeze, letting staff numbers dwindle through attrition. He's selling off noncore assets and slashing capital spending by 8%, to $550 million this year. More substantial cuts are likely in 1991. Stone is also trying to stop the slide in newsprint prices. With one of Connie's major Canadian rivals shuttering 60% of its newsprint capacity because of a union strike, Stone recently announced a 5% price hike effective Jan. 1. But there's no guarantee that the hike will stick next year, with recession fears in the U. S. and Canada.

So far, there has been no talk of cutting dividends. That's good news for the founding Stone family, which controls 28% of the stock and gets $12 million a year in dividend payouts. And the company still has some financial flexibility, with about $600 million in credit lines. Still, Stone certainly doesn't have much wiggle room. And his decision to depart from an acquisition strategy that served him so well over the last decade will be felt for years to come.

By Julia Flynn Siler in Chicago

CHART BY ALBERT MENA PM

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TIMES RANKED #1 LAST 50 YEARS
Northwestern Mutual Life®
2nd place company
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Source: An NML study of 20-year interest-adjusted cost histories for comparable ordinary life policies as published by Flitcraft Compend and Best's Flitcraft Compend for the years 1941-1990. Dividends are not an estimate or guarantee of future results. Policy value increases by applying dividends toward additional paid-up insurance. © 1990 The Northwestern Mutual Life Insurance Co., Milwaukee, WI

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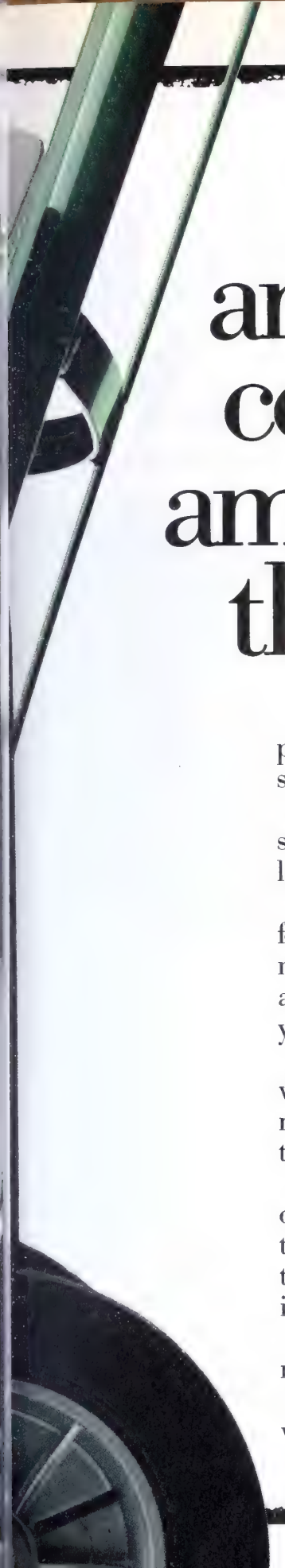

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APPLE: NEW TEAM, NEW STRATEGY

CAN THE SCULLEY-SPINDLER PARTNERSHIP DELIVER THE BOOST THAT'S NEEDED

SPINDLER: TRYING TO REPEAT HIS SUCCESS AT APPLE EUROPE

When Michael H. Spindler found himself thrust into the No. 2 spot at Apple Computer Inc. ast January, he knew there would be no ime for an executive honeymoon. Ap-le's market share was dropping fast, nvestors and customers were griping, nd workers, buffeted by continual hurning in the executive suite, were de-noralized. So when 260 Apple manag-rs gathered last month to hear the ompany's turnaround plan for 991, they were eager to learn what hief Operating Officer Spindler had to ay. "There was a show-me attitude," says one attendee.

They were shown. Pacing back and orth on a hotel stage near San Francis-o International Airport, Spindler napped out his strategy. It was not he usual sugarcoated pep talk. In-stead, the fast-talking German, with his nop of unruly black hair, rattled off a letailed plan for regaining market share nd paring Apple's bloated costs. The udience lapped it up. Later, Apple hairman and CEO John Sculley warmly congratulated Spindler on is 10th anniversary with the compa-ny and gave his latest lieutenant a dia-mond-studded Apple logo pin. The audi-ence jumped to a standing ovation.

BREATHING ROOM. Now, Spindler just has to convince the world outside of Apple's Cupertino (Calif.) headquar-ters that his plans can work. And he doesn't have much time. Near-ly seven years after its launch, the Macintosh is rapidly losing its edge as the easy-to-use personal com-puter. The short-term remedy is straightforward: new Macs with lower price tags, more advanced software, and price cuts on older models. If the market responds favorably to the new line, Apple will get the breath-ing room it needs to pursue a more critical, long-term strategy: a re-placement for the Mac. But "if Apple doesn't recover in 1991, its chances of recovery thereafter become hopelessly small," warns Peter J. Rogers, a computer analyst with Robertson, Stephens & Co.

Rapid recovery is by no means a sure thing, given Apple's slide. Its share of the $42.3 billion U. S. person-al computer market has plunged from nearly 15% three years ago to an esti-mated 9% now (chart, page 88). By last winter, "U. S. sales were dead in the water," admits Sculley. Luckily, Eu-ropean and Pacific Rim sales stayed bright: Apple's interna-tional business posted growth rates of 28% in the first half. Even so,

APPLE'S FALL LINEUP

MAC CLASSIC

$999

Aimed at first-time buyers, the Classic comes with a black-and-white, 9-in. screen, one floppy-disk drive, and 1 mega-byte of memory. It uses the Motorola 68000 microprocessor of the original Mac. With more memory and a hard-disk drive, the price is $1,499. The Classic replaces Mac Plus and SE

AVAILABLE OCT. 15

MAC LC

$3,098 WITH COLOR MONITOR

LC stands for low-cost color. Until now, color Macs started at $6,316. "Elsie" uses the 68020 chip and crams 2 megabytes of memory, a hard-disk drive, and one expansion slot in a "pizza-box" package. This is Apple's bread-and-butter business computer—to go up against IBM's best-selling PS/2 Model 55SX

AVAILABLE OCT. 15

MAC IISI

$3,769

Apple's stab at high power at a relatively low price, the IIsi uses the 68030 chip, Motorola's answer to Intel's 80386. The IIsi comes with 2 megabytes of memory, but can be upgraded to 17, and 80 megabytes of disk-drive capacity. Eventually, it will displace the SE 30, which, for now, will get a big cut in price

AVAILABLE JANUARY, 1991

when results are in for the fis-cal year ended Sept. 30, analysts ex-pect Apple to report an anemic 6% revenue gain, to $5.5 billion. That's a jarring slowdown from 1989's 30% pace. The profit picture is worse. Rick J. Mar-tin, an analyst at Prudential-Bache Se-curities, projects a puny 2% in-crease in net earnings, to $465 million. That prospect has helped push Apple stock down to below 30, off 37% from mid-July.

RADICAL CHANGE. Spindler will soon find out if his plan works. On Oct. 15, the company will launch its low-priced Macs: the $999 Mac Classic, the $3,000 Mac LC equipped with a detachable color moni-tor, and the powerful $3,700 Mac IIsi (table). They will be followed next year by a high-end Macintosh, a new laptop, and a rewrite of the Mac's basic soft-ware (page 93)—all intended to win back Apple's technological lead. These pro-jects were in the works long before Spin-dler arrived in Cupertino, but he's re-sponsible for getting them into production and on the market.

The new Macs represent a radical change—and risk. Although the first Macintosh in 1984 was billed as "the computer for the rest of us," its progeny have become the computers that only well-heeled corporate customers—or die-hard Apple worshipers—can af-ford. By this spring, Macintoshes cost as much as 36% more than comparable IBM and Compaq ma-chines. That was part of an inten-tional drive to exact a steep premi-um for Macintosh's distinctive "user-friendly" features. The resulting high gross margins—about 25% greater than those of other PC makers—were needed, Sculley said, to fund the research needed to keep the proprietary Mac ahead of the IBM PC and its clones.

There was, of course, a downside. Ap-ple's original customers—schools and small businesses—found it harder to af-ford new Macs. And, Sculley now con-cedes, fewer and fewer new customers were willing to pay the premium to buy their first Macintoshes. At the same time, the whole proprietary approach on which Apple based its high-price strate-gy was being called into question by so-called open systems. Those computers, based on standardized software, prom-ised low hardware costs and easy inter-connections.

By 1989, it was clear that Apple had gone too far. Even Mac fanatics—the intensely loyal customers who eagerly await the next permutation of the Macin-tosh design—began to question Apple's pricing. And the technological advances that were promised in return for the

'This is still a teenage company. It's a $5 billion company with the corporate infrastructure of a $250 million company'

ROBERT PUETTE
President, Apple USA

high prices were slow in coming. In that single year, Apple's slice of the U. S. market dropped by 20%. More alarming, as 1990 dawned, Microsoft Corp. was getting ready to release Windows 3, the IBM PC program that promised to finally match the Mac's big advantages.

UNLIKELY SWITCH. By the time the warning bells went off, Apple's top management was in disarray. A 1988 reorganization had created largely autonomous empires in marketing and product development under two ambitious executives, Allan Z. Loren, president of Apple USA, and Jean-Louis Gassée, president of Apple products. Fighting between the two camps had left both largely out of touch with the market: Loren's pricing and merchandising policies were a flop, and Gassée's products were late and overengineered. In January, Sculley forced the resignation of Loren. In February, Gassée quit after his responsibilities had been pared. Spindler, the star performer who had propelled Apple's European operations to $1.2 billion in annual sales from $467 million in three years, was made COO.

Now, Spindler is set to win back market share. But there's a chance he may be too late. Windows 3 is off to a roaring start: Analysts estimate that 1 million copies have been sold since May. That, say some industry watchers, makes it far harder for Apple to switch IBM PC users to the Mac. "Nobody who uses a PC will buy a Mac, and nobody who uses a Mac will buy a PC," says Philippe Kahn, president of software maker Borland International Inc.

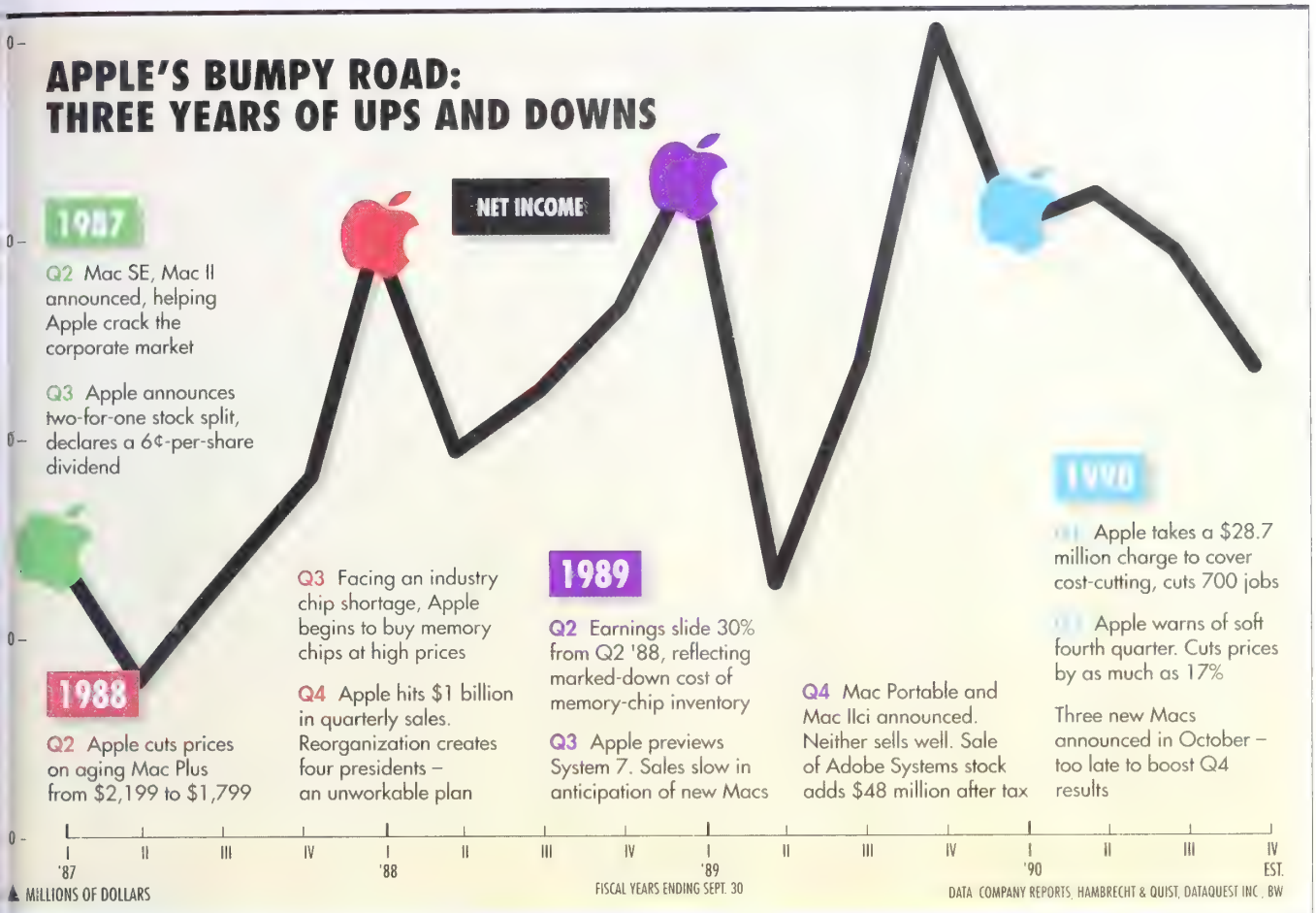
It needn't have been that way. In 1987, Apple was handed what many analysts figure was a once-in-a-lifetime opportunity. OS/2, the operating system with graphics capability introduced by IBM and Microsoft Corp. in 1987 to give IBM personal computers and their clones Mac-like characteristics, was not selling. As far back as 1987, software developers had urged Sculley to quickly produce cheaper Macs to expand the market while the competition was becalmed. "The Mac is wonderful. But it was too expensive to reach new buyers," says J. A. Heidi Roizen, president of software developer T/Maker Co. Rather than seize its chance to grab market share, however, Apple chose to maximize its profits. And management gaffes such as overpaying for memory components and excessive spending often wiped out the benefits of Apple's high margins (chart, page 89).

Apple may have also overlooked another opportunity. Even though the Mac's features were unique, the company's marketing avoided making direct comparisons with rival machines. Instead, ads emphasize intangibles such as "the Macintosh advantage" without detailing what it really is. One marketing consultant say she advised the co pany long ago make feature-for-fe ture comparisons b tween the Macintos and the IBM machine Even with its prem um prices, she say "Mac still comes o ahead in a lot things that peop really care about, pa ticularly ease of use But Apple marketin executives rejecte the idea and insiste on a more nebulo "image" campaign.

That's not Spi dler's game. "Yo can't make style w over substance," h says. In a 24-year c reer in computers and electronics th began in engineering and then move into sales and marketing, the 47-year-o held jobs at Siemens, Intel, and Digit Equipment before joining Apple Europ While capable of waxing about the "v sion" of the Macintosh and the "mi sion" of Apple, Spindler is firm grounded in reality. An energetic, har driving executive—nicknamed "the Di sel" by colleagues at DEC—he's the a tithesis of New Age, touchy-feely Silic Valley managers. "I wish I had half t turbo he has for a mind," says Söre Olsson, former vice-president of Apple Northern Europe operation and Spi dler's replacement as the Paris-base head of Apple Europe. "Give him white board and pen, and his min mouth, hands all work at the sam speed."

Since taking on the COO job, Spindl has been working almost without letu In the January reorganization, Spindl took over sales, marketing, manufactu ing, and corporate communication while Chairman Sculley turned his atte tion to research and development (pag 92). Managers are discovering that u der Spindler, substantive marketing in—as are tighter budgets and fir deadlines—and politics are out. Al gone is the arrogant, not-invented-he syndrome: Apple is now talking to T shiba and Sony about possibly manufa turing an upcoming laptop Macintosh.

'NO PRIMA DONNAS.' With the compa facing such formidable challenges, Spi dler is also emphasizing teamwork. In speech to the troops last March, h warned: "There will be no more prim donnas at Apple." That, insiders sa may be the most important change all. Sculley, the former PepsiCo In



arketing impresario, masterminded a emarkable revival after taking over om ousted co-founder Steven P. Jobs 1985. But in 1988, with the Mac selling ell to Corporate America, Sculley took ff on a sabbatical. At his Maine vacaon home, he thought up a disastrous organization plan that delegated dayday decision-making to four presients, each responsible for giant chunks f the company. Oversize ambitions led clashes—mainly the ones between delopment chief Gassée and U.S. marting chief Loren. But similar rivalries echoed throughout the executive suite.

By early this year, middle managers were receiving little direction. "If there was a major failing," concedes Sculley, "it was that the organizaton was confused about where we were going." Indeed, an in-house survey of middle managers in May turned up dissatisfaction and mistrust of top brass, says a former employee. "It was devastating." Snorts an executive still at Apple: "People were calling the management around here 'Pepsi Light.'"

It didn't take long for Spindler to change that impression. Arriving from Paris in March, he quickly sized up the situation and swung into action. "He plants his fist and says this is what we're going to do," says Burt Cummings, an Apple marketing manager. "It's excellent."

In June, Spindler tapped 48-year-old Robert Puette, a Hewlett-Packard Co. veteran, to rebuild Apple's troubled domestic sales division. The same month, he reversed a three-year-old plan to spin off Claris Corp., a software subsidiary. The move guaranteed Apple in-house expertise for future development of networking technologies and System 7, the new Mac software. Working with Sculley, Spindler helped patch up a feud with Adobe Systems Inc., maker of the PostScript software that was key to helping the Mac pioneer the desktop publishing market. Gassée had insisted that Apple develop its own printer-control program, a move that would have eliminated royalty payments to Adobe.

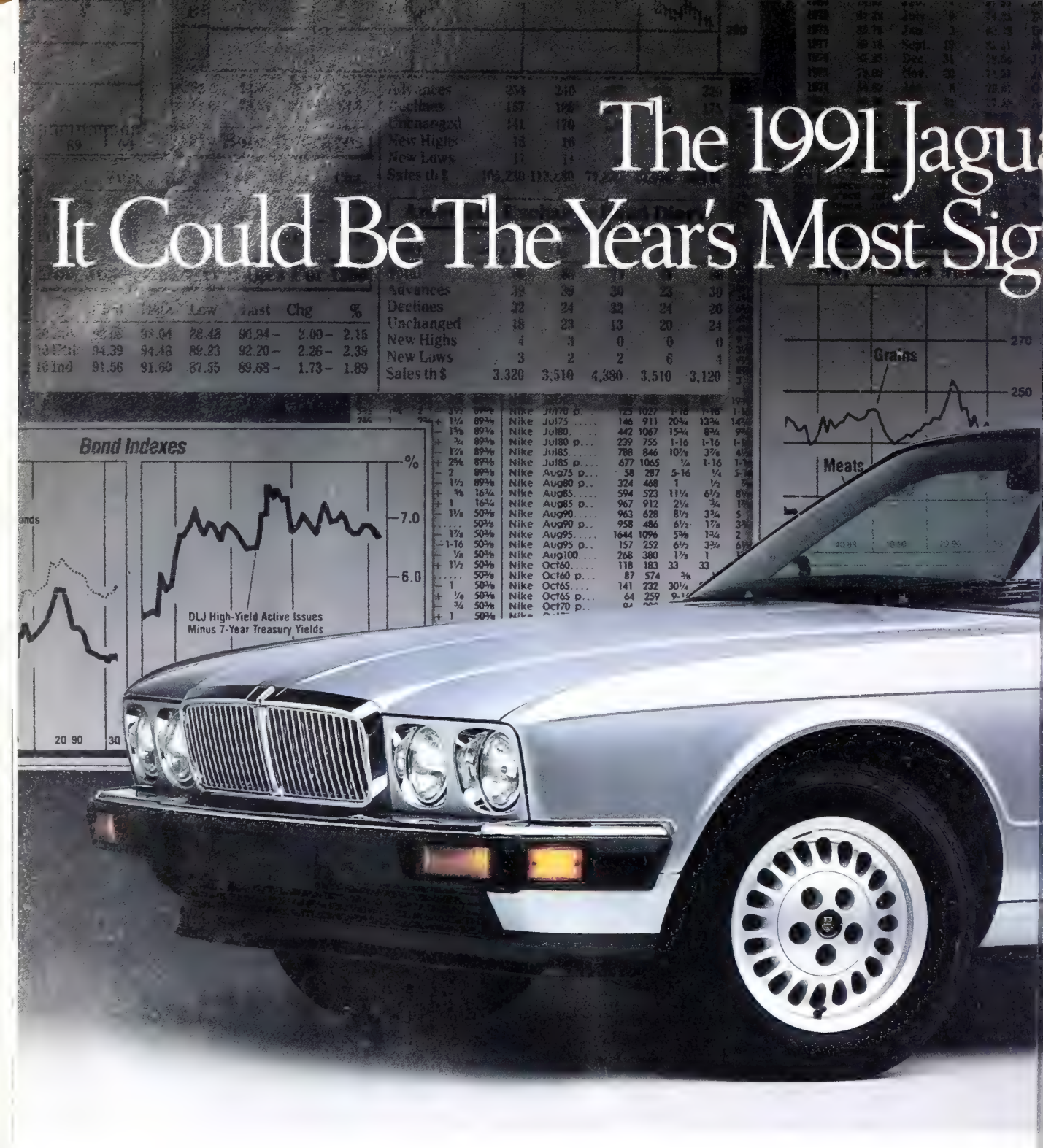
A year ago, it would have been impossible to discuss a deal for Toshiba or Sony to build a laptop Mac

SOREN OLSSON
President
Apple Europe

SPENDTHRIFT. But Spindler and Sculley have more in mind than undoing Apple's mistakes. They're preparing the company for a new way of life. As lower-priced Macs hit the market, says Prudential-Bache's Martin, gross margins may tumble as low as 45% by 1993, from a peak of 54% in the first nine months of 1990. News of the upcoming low-margin Macs sent Apple's stock to new lows in early October.

So Apple has to rein in its lavish spending. By computer industry standards, Apple has always been a spendthrift. Its salaries are among the highest in Silicon Valley, and its perks, such as workout facilities, are the best. As a result, its selling, general, and administrative expenses are about 30% of reve-

The 1991 Jagu
It Could Be The Year's Most Sig



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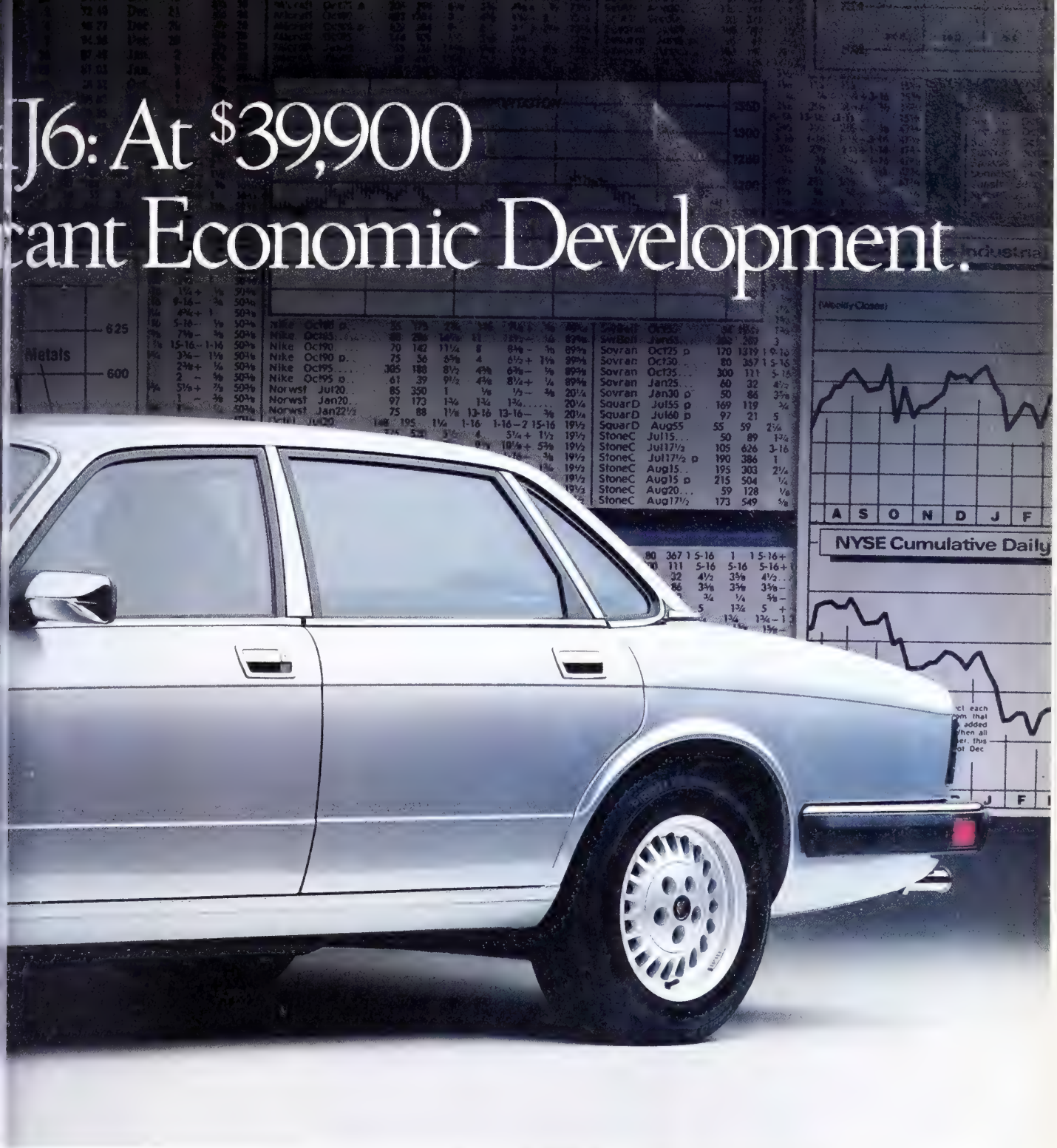
Further performance refinement comes from a fo speed automatic transmission. Because it's electro cally controlled, it converses freely with the engin determine upshifts and downshifts with unprecede

A B L E N D I N G O F A R T A N

J6: At $39,900
ant Economic Development.



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A C H I N E

J A G U A R

nues, compared with 24% at Sun Microsystems Inc. For fiscal 1990, analysts estimate, Apple spent a stunning 24% of sales, or $1.4 billion, on sales and marketing costs, compared with 12% at Compaq Computer Corp. "They haven't been run with the tight financial controls of a Compaq," says Martin. Puette, fresh from the tightly managed HP, says he was blown away by Apple's loose controls. "This is still a teenage company," he says. "It's a $5 billion company with the corporate infrastructure of a $250 million company."

That, too, is changing. Starting with the 1991 corporate business plan, more stringent controls are in place. And planning has become more of a discipline and less of a fantasy. "We started our business planning months earlier than we have before," says Chris Espinosa, a software marketing manager who has been with Apple since it was founded 14 years ago. And "there was a level of checking and cross-checking that we've never gone to before," adds Guerrino De Luca, a marketing director in Paris.

Puette, who was a running back at Northwestern, is the key player in the 1991 plan. His job is to revive U. S. sales, which have remained dismal despite a series of April price cuts. Puette's first move has been to patch up relations with dealers who fault Apple's lackluster promotional efforts and resent its selling directly to large customers. Apple

SCULLEY: UP AGAINST THE LAB WALL

John Sculley says that both he and his company thrive on crisis. "Apple works best with its back against the wall," says the chairman. "Believe me, my back has been up against the wall."

That's for sure. Back in 1985, the last time Apple faced a crisis, Sculley had to figure out how to keep the company in one piece following the ouster of co-founder Steven P. Jobs—and how to make the oddball Mac a success. To pull it off, he became a spokesman for the company, crisscrossing the globe to convince corporations to buy Macs. Apple took off. Sales swelled from $1.9 billion in 1985 to $5.3 billion in 1989. Sculley was well rewarded: At $2.2 million, his paycheck is one of the highest among CEOs.

But while Sculley was playing Mr. Outside, his senior executives were running amok. Sculley went through a succession of protégés, creating what one former manager calls an atmosphere of "executive *du jour*." By early this year, Apple was once more in crisis.

HIDDEN TALENT. So Sculley installed Michael H. Spindler as his new No. 2 and put him in charge of marketing and most other day-to-day operations. Then, the 51-year-old CEO took on the most important inside job: overseeing development of technology to eventually replace the Macintosh.

It seemed an odd job for Sculley. The former Pepsi-Cola president had been hired to bring big-league marketing savvy to Apple in 1983. And, despite a lifelong interest in technology and his training as an architect, he had never immersed himself in the nuts and bolts of product development. So his decision caused plenty of eye-rolling within Apple's labs. "They really didn't want me," recalls Sculley. Adds Larry Tesler, vice-president of advanced products: "There was tremendous skepticism among the engineers. I couldn't imagine how he could manage engineering."

There was plenty of eye-rolling in R&D when Sculley named himself chief technical officer. 'They really didn't want me,' he admits

JOHN SCULLEY
Chairman and CEO

But Tesler has been surprised by how well the boss has done. Sculley's big contribution has been to make sense of the various projects launched under Jean-Louis Gassée, the former president of Apple Products. He quickly consolidated development units, created a quarterly operations review, and instituted daily 7:30 a.m. meetings with his chief Macintosh engineer. The changes hastened decision-making. Now, "people don't slow each other down," says Tesler.

Sculley's long-term aim is to get new products out the door in 9 months to 1 months, rather than the 18 months t 24 months it now takes. There are signs he is making progress. Just one month short of the Oct. 15 debut of the new Mac LC, and with some manufacturing already under way, Apple quickly reworked the machine's color graphics to meet demands of educational buyers.

Sculley's chief nemesis is what engineers call "creeping elegance"—the tendency to take perfectly adequate design and keep adding new bells and whistles until the finished product is late to market. Apple had a perfect example in Gassée's Macintosh Portable—an overpriced, overengineered, overweight disaster.

Managing better is one thing. Technology leadership is another. And some engineers fear that Sculley doesn't have the technical depth required to make sure that the Mac replacement is a significant advance. Sculley says he'll continue to devote 70% of his time to R&D until early 1992. Unless, of course, another crisis comes along.

By Barbara Buell in Cupertino, Calif.

owly phasing out its major-accounts les force and turning corporate sales er to local dealers. "This gives us ditional credibility with customers," ys Steven Asche, director of Apple oducts at Computerland Corp. As the new head of Apple USA, Puette also working to revive sales to schools d colleges, a $4.2 billion market in the S. In the past few years, longtime ader Apple had paid less attention to e market, creating a huge opportunity r IBM. Now, Apple troops are survey- g these customers to see what they nt in new software and hardware. To t a better grip on the higher-education arket, the company has dispatched oups of employees on "camping trips" universities to pick the brains of stu- nts and faculty.

The toughest job in the coming nths will be managing the introduc- n of the new products. "You have aranteed cannibalism of the machines st above them," says analyst Martin. ready, customers have stopped buying me older models in anticipation of the w Macs, and Apple is likely to cut ices to move inventories. But the com- ny figures that by its second quarter, ding next March, brisk sales of the w models will more than make up the fference. Some analysts say that with cession likely in the U. S., low-priced acs may be well-timed. "With capital dgets shrinking, price is an important ement," says Bruce A. Stephen, direc- r of PC research at International Data rp. "It will help keep market share m eroding further."

MORE MICE. Even if they hold market are—or increase it a bit—the new ma- ines are only a transitory solution. For more permanent revival, Apple needs "stay ahead of the power curve" with w technology, says David Bayer, an alyst with Montgomery Securities. Ul- nately, the Sculley-Spindler team has prepare for the day when the Macin- sh will be replaced.

Two approaches are now under study, siders report. One involves computers ing the RISC (reduced instruction-set mputing) chips that have already ought enormous power to engineering rkstations. Apple is said to have 30 gineers working on a project called guar, using Motorola Corp. RISC tech- logy. At least two years off, Jaguar ll include extensive video technology d the ability to connect to TVs and Rs, Apple employees say. The second oject is a computer that can deal with ndwritten information, eliminating the ed for keyboards and mice.

Neither RISC computers nor handwrit- g-input computers are unique. And at points up Apple's most basic prob- m: coming up with another computer volution on the order of the original

MAC'S NEW SYSTEM 7 FACES A STRONG DRAFT FROM WINDOWS

Back in 1984, when Apple Computer Inc. introduced its Macintosh, it was easy to see what made it different. For one thing, its trim physique made it far better looking than other personal computers. More important, instead of just showing words and numbers, as an IBM PC did, the Mac had eye-pleasing graphics. And it came with a device called a mouse that made it possible to do things with a push of a button, rather than typing commands.

What made most of that possible was the Macintosh operating system, the program that controls the computer. In addition to using pictures called "icons" to represent functions, it let owners look at data in two separate files simultaneously by putting them side by side on the screen in "windows." Thanks also to the operating system, all programs written for Mac work similarly, making it easier to learn new ones.

NEW EDGE. Now, after years of trying, other computers have caught up with the Mac. Last May, software developer Microsoft Corp. announced Windows 3.0, a $150 IBM PC program that mimics the Mac's graphics and windowing features. Industry watchers say that Windows might give the Mac a boost by making graphics more popular.

Mainly, however, Windows is a threat. Realizing that, Apple decided back in 1988 to try to regain the lead with a massive rewrite of its operating system. Called System 7, it is the most extensive software project Apple has attempted since the original Mac. Already a year late, System 7 is due out early next year and will come standard with new Macintoshs. But it will lack some publishing graphics that Apple had originally planned for it.

Still, Mac owners will get features in System 7 that aren't likely to appear on PCs for a couple of years (table). Better yet, software packages that were written for earlier Mac operating systems will be able to work with System 7. That's a big advantage over the new PC packages, Windows and OS/2, which require new programs to take advantage of their new features. Making System 7 "backwards compatible" has been the major cause of its delay.

The biggest improvement in System 7 is how it helps Macs communicate with different kinds of computers—a key selling point in corporations. The communications advances are so powerful, says Philippe Kahn, president of software maker Borland International Inc., that "whatever Microsoft gained with Windows, Apple will gain back with System 7."

The problem is that System 7's benefits won't be easy to see, the way the Mac's were in 1984. A Mac and an IBM PC with Windows sitting side by side look alike. Indeed, Windows is so close to the Mac that it has been the subject of a protracted copyright suit between Apple and Microsoft.

Some buyers may also balk at what System 7 doesn't have. It has only a simple form of multitasking, the ability to run more than one program at a time. Complex multitasking is a big feature of OS/2.

Most worrisome, System 7 may not be enough to inspire new software programs for the Mac—particularly when Apple's market share is declining. If that's true, Apple may find that, for all its effort, System 7 amounts to no more than treading water.

By Richard Brandt in Cupertino, Calif.

WHAT'S NEW ABOUT SYSTEM 7

FINDER 7.0
Makes it easy to find files stored on the hard-disk drive by searching, for instance, by key word

TRUETYPE
Creates sharp type on the screen and enlarges or shrinks it to any size

VIRTUAL MEMORY
Allows a computer to run large programs without using up all the memory by shifting unused portions of the program to the hard-disk drive

DATABASE ACCESS MANAGER
A built-in language that lets Mac application programs get information from a corporate database

INTERAPPLICATION COMMUNICATION
Links programs so that changes in data in one are reflected in another

FILE SHARING
Lets two Macs connect by cable so they can send data to each other easily. With an add-in card, a Mac and an IBM PC can be linked

DATA: COMPANY REPORTS, BW

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Cover Story

Macintosh is quite unlikely. While Sc ley's hush-hush Advanced Technolo Group keeps trying for that revoluti in the back room, Sculley and Spindl are left with the task of running App today. Increasingly, that means doi business just as other computer make do—adding bits and pieces of hardwa and software to make their machines a pealing to a wider range of customer

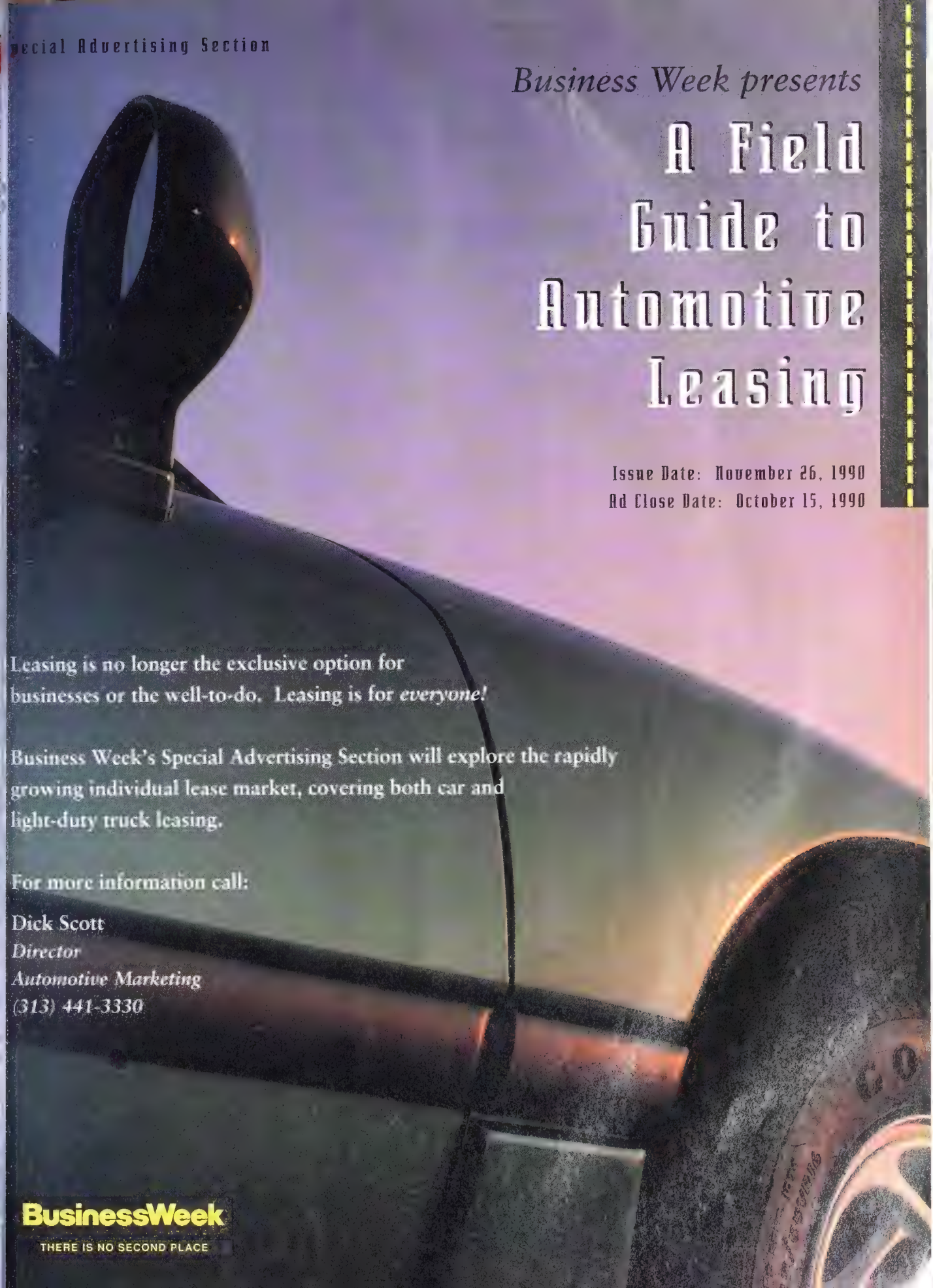
Now, Sculley's R&D troops are encou aged to work with outside suppliers a adopt off-the-shelf technology when will help get products out the door time. That's a 180-degree change fro the company's approach to technolog under Gassée—and before him, Job Both drove engineers to perfect prop etary Apple technology, even if it mea slower product introductions. Toda "there's an urgency here," says Spi dler, who promises new Apple produc every quarter in 1991. "Time to mark has to be made shorter."

BREAK THE RULES. The deal to get a ne laptop quickly by having it built by Japanese subcontractor is the mo striking example of how Apple is chan ing. "A year ago it would have bee impossible to even discuss that, but M chael and John have really opene things up," says European Chief Olsso Now, Apple executives say, no idea off limits, no rules unbreakable. Th includes the possibility of licensing po tions of Apple's proprietary operatin system to makers of IBM-compatible m chines to broaden the Mac market.

Breaking rules is nothing new f Spindler. As president of Apple Europ he didn't wait for marching orders. H took it upon himself to shake up th status quo by diluting each countr manager's responsibilities for settin pricing and other policies. Prior to Spi dler, each country had different deal discounts. Prices varied by as much a 40% across the Continent. Spindle smashed those individual fiefdoms an made Apple Europe's strategy unifor Now, the company is following App Europe's lead as it expands in Asia. Japan alone, it expects to post $1 billio in sales within the next few years. "Th way Apple is working now at corpora headquarters under Michael is ho we've always worked in Europe," say Olsson. "He hates business as usual."

To say the least, business as usual not what Apple—or its customers shareholders—want. By next year management meeting, the verdict on th Sculley-Spindler team will be in. The tw are gambling that by then, they'll bot rate another standing ovation.

By Barbara Buell in Cupertino, Cali with Jonathan B. Levine in Paris, and Ne Gross in Tokyo



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HEALTH & SAFETY

'THESE PEOPLE WERE USED AS GUINEA PIGS'

Uranium miners get a trust fund—and apology—from Congress

Ralph Ebberts went to work in southwest Colorado's uranium mines in 1950, grateful for a $1.10-an-hour job in an area where people described themselves as being as poor as Job's turkey. He ate lunch underground, drank water scooped up from the mine floor with a tin can, and worked in dust so thick he couldn't see the light bulbs overhead. "The boss wouldn't start the fan until the big shots was coming," says Ebberts, now a rancher in Egnar, Colo. "We didn't even know what radon was."

He does now. Ebberts, 79, has had prostate and bladder cancer, and suffers from silicosis as well. "I can't sleep good for the achin' and the hurtin'," he says. Compounding Ebberts' pain is the bitter knowledge that the Atomic Energy Commission, predecessor to today's Nuclear Regulatory Commission, was well aware of the risks to him and other miners, yet did nothing. The miners themselves weren't any the wiser until health problems showed up years later.

Now, Ebberts and hundreds of other Western uranium miners who developed cancer and other diseases are finally gaining some relief. The Radiation Exposure Compensation Act, which cleared Congress on Sept. 28, would create a $100 million trust fund to pay $100,000 each to disabled uranium miners or their families.

NUCLEAR DAWN. In addition, the bill, which President Bush is expected to sign, will give $50,000 each to residents of Utah, Arizona, and Nevada who developed similar ailments as a result of open-air nuclear testing. Up to 450 miners and 800 "downwinders" are eligible now, but since it takes years for the diseases to appear, others are sure to join their ranks.

Few of those miners had any idea back then that uranium could be deadly. In fact, in the early 1950s, when the U. S. was in a nuclear-arms race with the Soviet Union, mining was a patriotic act. "These people were used as guinea pigs . . . in the life-and-death struggle with 'godless communism,' " says Representative Wayne Owens (D-Utah), a sponsor of the bill. One of the "guinea pigs" was Owens' own brother-in-law, a Marysvale (Utah) miner who died of lung cancer two years ago. Owens himself remembers that as a boy, he got up at 4 a.m. to watch nuclear blasts light up the sky over his Panguitch (Utah) home.

The AEC, which was charged with building America's nuclear arsenal, was far better informed of the dangers of uranium. That's why, according to largely unrefuted congressional testimony, it allowed open-air nuclear testing only when the wind was blowing away from Las Vegas—and toward sparsely populated Utah. In the early 1950s, the U. S. Public Health Service warned the AEC about the high radiation in uranium mines and suggested better ventilation to prevent decaying radon gas from attaching itself to dust particles that miners then breathed into their lungs. The health service's concerns were well founded: Early uranium miners developed lung cancer at 5 to 10 times the rate of the general population, according to later Public Health Service studies.

But the AEC ignored the advice, apparently figuring that if miners knew how dangerous working conditions were they would quit. Stanley Brewer, a Cortez (Colo.) retiree who worked in the uranium industry for 20 years, says he would have "taken up another trade. Everyone who worked there was sacrificed to get the uranium out." Stanley's brothers Bennie and Melvin also worked in the mines. Both died of lung cancer in 1988. Stanley has lung problems that make even walking difficult.

MEDICAL BILLS. "There wasn't a man here who worked in the mine who didn't have a big chunk of ore in his house," says Walter Peabody, who had half a lung removed in 1954. His three young sons paid for the surgery by pooling the money they made baling hay during summer vacation. Today, Peabody owes some $70,000 in medical bills, and he will use the government money to pay debts.

That's where most of the compensation will go. For years, the miners have tried to get help for their medical bills. In 1978, Stewart L. Udall, Interior Secretary under Presidents Kennedy and Johnson and now a Santa Fe (N. M.) lawyer, sued the government on behalf of a group of victims. But an appellate court ruled in 1981 that the government was protected by sovereign immunity, and in 1988, the Supreme Court refused to hear the case. Only a few miners have obtained worker's compensation or even welfare.

The bill contains a rare apology from Congress to the miners "for the hardships they have endured." But there is scant comfort to them or their widows. "If they could bring back the dead, it would be all right," says Yvonne Garcia of Cortez. Her husband, Rubel, was bedridden for seven years before dying of lung cancer last New Year's Eve. As for the apology? "It's a little late."

By Sandra D. Atchison
Cortez, Colo.

ENEMY MINE: VICTIMS EBBERTS AND BREWER MAY GET $100,000 EACH

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FUNDS ARE REELING FROM SADDAM'S HAYMAKER

Equity funds dropped even faster than stocks in the third quarter. Only precious-metals funds gaine

If one had to choose a single word to summarize the performance of equity mutual funds in the third quarter, it would have to be "yecch." With precious few exceptions, stock funds endured their worst declines since the calamitous fourth quarter of 1987.

Mutual funds have been pummelled since Aug. 2, when Saddam Hussein invaded Kuwait. And even though funds had high cash levels—12% in August, according to the Investment Company Institute—the cash cushion was not sufficient to keep funds from declining more rapidly than the overall market. The 1,107 equity funds tracked by Morningstar Inc. lost an average of 14.5%, nearly a full percentage point worse than the 13.7% decline in the Standard & Poor's 500-stock index. The decline for diversified funds—excluding specialized portfolios—was even worse, a stomach-churning 15.9% drop during the quarter. And the once-exuberant funds investing overseas turned sour despite a weakening dollar, declining 17% as foreign bourses fell even further than the U. S. market.

'REACTIVE.' Investors have begun to get cold feet—withdrawing $2.78 billion from stock mutual funds in August, according to the latest ICI figures. "It's reactive," says Kurt Brouwer, a San Francisco money manager specializing in mutual funds. "If investors have a long-term time horizon, this is the time to buy."

Investors follow their usual—and unwise—pattern of buying into the best-performing category of the recent past, they will go for the gold. Among the broad categories tracked by Morningstar, only precious-metals funds, which eked out a 4% gain, came out ahead at the end of the quarter. The worst-performing funds invested in technology and financial services stocks, which had some of the biggest declines, and in small over-the-counter issues.

Still, there were a few bright spots. The best-performing fund of the quarter, the Dreyfus Capital Value fund, had an uninspired showing in 1989, rising 25.3%, vs. 31.7% for the S&P. But in the most recent quarter it was a standout, gaining 13%—an annual rate actually better than the market's 1989 performance. "Our portfolio might have looked strange at the beginning of the quarter, but it really went up in lights," says portfolio manager Stanley Salvigsen.

Unlike most mutual funds, the Dr fus fund has the flexibility to invest stocks, bonds, and options, and it c also sell short. Salvigsen was bearish the quarter began and deployed 12% the fund's assets into short sales—of nancial institution stocks, among oth things—and placed 2% of the fun cash into put options that gained as t Japanese market collapsed.

The above-par perf mance enjoyed by t Dreyfus fund was shar by other versatile "b anced" funds, as well by asset-allocation fun Both fund categories ha tended to keep high ca levels and to deploy good chunk of their ho ings in bonds, which not perform quite as m erably as stocks. Th hurts them when equit are advancing but p tects them when stoc nosedive.

Also enjoying compa tively better performan were funds investing high-yielding stocks. As result of their dividend come stream, electric a gas utilities and the fun that invest in them w among the better (le bad, that is) performers the quarter. For examp the Lindner Divide Fund, which has a 10. yield and invests mostly convertible preferred curities, declined just 2. during the quarter. "U ties are pretty much resistant to do turns because of their yields," says po folio manager Eric E. Ryback. "We been buying them aggressively for past year or so."

To come out unscathed, however, only sure bet turned out to have bee perennial dog—the funds that own go mining stocks. Although several ener

HOW FUND CATEGORIES PERFORMED

	Total return*
ASSET ALLOCATION	-7.39%
AGGRESSIVE GROWTH	-20.82
BALANCED	-8.25
EQUITY-INCOME	-11.13
GROWTH	-15.67
GROWTH & INCOME	-12.68
INCOME	-7.43
INTERNATIONAL STOCK	-17.18
OPTION/INCOME	-10.04
SPECIALTY	-19.19
SMALL COMPANY	-22.14
SPECIALTY—FINANCIAL	-23.25
SPECIALTY—HEALTH	-10.95
SPECIALTY—NATURAL RESOURCES	-2.28
SPECIALTY—PRECIOUS METALS	3.97
SPECIALTY—TECHNOLOGY	-25.16
SPECIALTY—UTILITIES	-6.49
U.S. DIVERSIFIED EQUITY FUND AVERAGE	-15.85
EQUITY FUND AVERAGE	-14.49
S&P 500	-13.72

*Includes reinvested dividends and capital gains
DATA MORNINGSTAR INC

utual funds made it to the top of the nkings, funds investing in natural re-urces declined slightly during the arter. By contrast, precious-metals nds managed to pull out ahead, as ld-mining shares advanced during the arter because of the rise in the price bullion. Gold advanced as high as 25 during August, only to retreat be-ath $400 as tensions ebbed. Gold-min-g stocks fluctuated wildly but ended e quarter ahead.

ELL SIGNAL.' Among the precious-met-s funds, the top spot was claimed by ronto-based Blanchard Precious Met-s fund, which invests mainly in North nerican gold-mining stocks. "We were ll 20% in cash four months ago," says rtfolio manager Peter C. Cavelti. hen we decided we could do better, so became more fully invested"—in ne for the post-Saddam surge in gold ices. Good timing was also enjoyed by e managers of the Monitrend Value nd, which uses options to guard ainst market downturns. Senior port-lio manager Michael Licameli notes at the fund's technical indicators upted in a "sell signal" on July 20, and e fund reacted by selling S&P index tures and futures on the New York ock Exchange composite index to dge its portfolio of blue-chip stocks. sult: The fund showed a 0.39% gain. But the stellar performance of a hand-l of funds is little solace for most fund

> The public is hardly abandoning mutual funds—and the outflow of cash could easily reverse

stomers. The most widely held funds rformed poorly, with the biggest of em all—Fidelity Magellan—declining nost three percentage points more an the S&P index. For Magellan, that as the first full quarter under Morris nith, who succeeded famed money anager Peter Lynch in May.

The public, however, is hardly aban-ning mutual funds—and the flow of sh out of stock funds could easily re-rse. The money withdrawn from stock nds during August was kept within e fund groups. When transfers within nd families are excluded from the fig-es, $339 million actually flowed into ock funds. Investors are deploying the oceeds into money market mutual nds—where they can be transferred ck into stock funds by just lifting a one. And if the market shows any re-ience, they'll probably do just that.

By Gary Weiss in New York

THE BEST AND WORST OF THE THIRD QUARTER

LEADERS

Fund	Total return*
Dreyfus Capital Value	12.96%
Blanchard Precious Metals	11.68
Enterprise Precious Metals	11.30
Strategic Investments	10.27
USAA Investment Gold	9.34
Thomson Prec. Metals & Natural Res. B	9.05
Van Eck Gold/Resources	8.83
Fidelity Select Energy	8.42
Scudder Gold	8.23
Benham Gold Equities Index	7.45
Financial Strategic Energy	7.38
Lexington Goldfund	7.22
IDS Precious Metals	6.75
SLB Precious Metals & Minerals	6.44
Kemper Gold	6.03
Colonial Advanced Strategies Gold	5.98
Merrill Lynch Natural Resources B	5.85
Fidelity Select Energy Service	5.40
Fidelity Select American Gold	4.97
SLB Precious Metals	4.93
United Services Global Resources	4.76
Fidelity Select Prec. Metals & Min.	4.75
Equity Strategies	4.73
MainStay Gold & Precious Metals	4.44
Keystone Precious Metals Holdings	4.29
Vanguard Specialized Energy	3.84
United Services World Gold	3.70
Vanguard Specialized Gold/Prec. Metals	3.17
International Investors	3.04
Rushmore Precious Metals Index Plus	2.45
Kidder Peabody Special Growth	2.32
PaineWebber Master Energy-Utility	2.23
Oppenheimer Ninety-Ten	2.02
Colonial VIP Inflation Hedge	2.00
Excel Midas Gold Shares	1.79
MFS Lifetime Gold & Precious Metals	1.63
Bull & Bear Gold Investors	1.35
Financial Strategic Gold	1.21
Mathers	0.84
Franklin Gold	0.78
United Gold & Government	0.70
Freedom Gold & Government	0.44
Monitrend Value	0.39
Unified Income	0.37
Rightime Blue Chip	0.11

LAGGARDS

Fund	Total return*
Prudent Speculator Leveraged	-46.63%
Bull & Bear Special Equities	-43.75
Security Ultra	-41.16
Steadman Ocean. Technology & Growth	-39.80
SLB Small Capitalization	-37.32
Security Omni	-35.49
Alliance Technology	-33.21
SteinRoe Capital Opportunities	-33.14
Delaware Group Trend	-32.67
Oberweis Emerging Growth	-31.91
Fidelity Select Electronics	-31.76
Washington Area Growth	-31.69
FPA Capital	-31.24
Seligman Communications & Information	-31.14
MFS Lifetime Emerging Growth	-30.83
Fidelity Select Software & Computer	-30.81
SunAmerica Equity Aggressive Growth	-30.80
Twentieth Century Giftrust Investors	-30.74
AMEV Advantage Capital Appreciation	-30.58
Fidelity Select Financial Services	-29.89
Dean Witter Developing Growth Secs.	-29.82
Twentieth Century Vista Investors	-29.82
T. Rowe Price Science & Technology	-29.53
Flag Investors Emerging Growth	-29.45
Columbia Special	-29.31
Fidelity Select Capital Goods	-29.18
SAFECO Growth	-29.15
PBHG Growth	-29.13
Transamerica Technology	-29.12
Bull & Bear Capital Growth	-29.05
SLB Special Equities	-28.96
American Heritage	-28.85
Steadman Associated	-28.75
G.T. Japan Growth	-28.63
Fidelity Select Automation/Machinery	-28.56
Strategic Technology	-28.55
Sherman Dean	-28.44
Wall Street	-28.40
Kaufmann	-28.26
SFT Environmental Awareness	-27.68
Vance Sanders Special	-27.56
Olympic Small Cap	-27.51
USAA Mutual Aggressive Growth	-27.50
Unified Growth	-27.19
AFA National Telecommun. & Technology	-27.13

HOW THE LARGEST FUNDS FARED

	Total return*
FIDELITY MAGELLAN	-16.46%
WINDSOR	-20.34
INVESTMENT COMPANY OF AMERICA	-10.84
WASHINGTON MUTUAL INVESTORS	-13.13
FIDELITY PURITAN	-11.22
FIDELITY EQUITY-INCOME	-15.66
TEMPLETON WORLD	-17.80
PIONEER II	-17.11
AFFILIATED	-12.57
AMERICAN MUTUAL	-8.68

*Includes reinvested dividends and capital gains
DATA: MORNINGSTAR, INC.

INSIDER TRADING

MILKEN HAS EVERYTHING TO LOSE—AND LITTLE TO GAIN

It's unlikely the minitrial will boost his standing with the court

At last. After a decade of controversy over what Michael R. Milken did to Corporate America and how he did it, we're about to get as good a look as we'll ever get. A minitrial is set to begin on Oct. 11 to help decide whether he should do as little as no time in jail or as much as 28 years for six counts of largely technical violations of the securities laws. Although it won't be a full-fledged trial, a parade of witnesses will give testimony on the inner workings of Milken's junk-bond network at Drexel Burnham Lambert Inc.

While the peek into Milken's operations will help satisfy the public's curiosity, Milken is likely to be anything but satisfied. He has everything to lose and little to gain. He's at risk because Judge Kimba M. Wood has agreed to consider alleged crimes that were not among the six to which Milken pleaded guilty. And the relatively lax rules of evidence put the prosecution at an advantage. Still, Wood's strict timetable will force both sides to pursue their strategies carefully or lose the chance to introduce crucial evidence or testimony.

UPHILL BATTLE. It's hard to imagine Milken's standing with the court could improve. Judge Wood has already said that she agrees with Milken's defense team and scores of letter writers that Milken is both a devoted husband, father, and friend, and "hardworking, fair, and honest" in dealings with coworkers. She also agrees his many acts of charity began "well in advance of this investigation." Wood also has rejected government claims that Milken will break his promise to cooperate in further investigations after his sentencing. "I am assuming that Mr. Milken will do what he says he will do—that is, cooperate fully," Wood told prosecutors. In normal proceedings, that would suggest that Milken, who has already agreed to pay $600 million in fines, was making headway in persuading the judge to let him off with a light sentence—perhaps, as his lawyers urge, working with inner-city kids near his home in Encino, Calif.

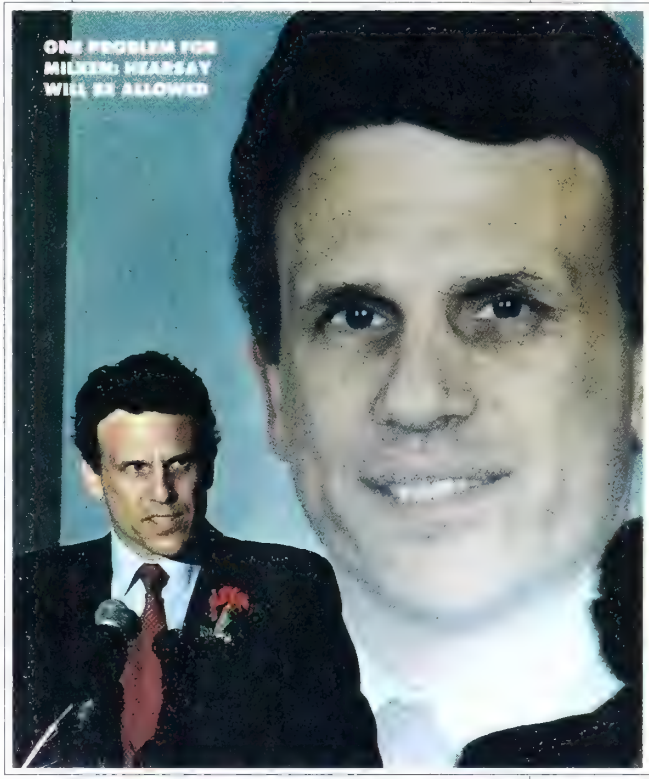
Now, however, Milken must face his accusers, and the hearing's ground rules will make an uphill battle even tougher. For one thing, the flexible rules of evidence in a sentencing hearing will let the government introduce hearsay and other evidence that ordinarily would be excluded. And prosecutors only have to prove their claims by a preponderance of the evidence instead of the tougher, beyond-a-reasonable-doubt standard. Wood has given each side just 20 hours to present evidence and to conduct cross-examination on four deals that she says represent a wide array of the other crimes Milken is alleged to have committed. But with a list of 14 possible witnesses for the prosecution alone, defense lawyer Arthur L. Liman won't have much time to go on fishing expeditions or impugn the witnesses' credibility. "We are in a very tight situation," Liman told Wood.

The case's star witness presents a challenge to the strategies of both sides, however. The government claims that arbitrageur Ivan F. Boesky had an ill[egal] arrangement with Milken that was [de]signed to manipulate stock and com[mit] other crimes. Even though prosecut[ors] say Boesky is on the "short list" of w[it]nesses they may use, they also ha[ve] some good reasons for not calling him [at] all. Boesky might so dominate questi[on]ing that there would be little time [for] other witnesses. One option: The pro[se]cutors could call only Boesky employe[es].

TICKING CLOCK. The problem for the [de]fense is uncertainty. If they prepare [for] Boesky, and the prosecution doesn't c[all] him, they'll have wasted valuable tim[e]. But if Boesky does appear, the defe[nse] will have to work fast to discredit hi[m].

The time constraints will also fo[rce] both sides to carefully allot their time [for] each of the four cases chosen by pro[se]cutors. Three cases involve trading securities in Wickes, Caesars World, a[nd] MGM/UA Communications. The four[th] and most treacherous for the opposi[ng] lawyers, involves complex charges th[at] Milken bribed investment-fund mana[gers] to buy securities used to finance t[he] 1985 leveraged buyout of Storer Co[m]munications Inc. If either prosecution [or] defense becomes entangled in the c[om]plex tails, they are likely to wind up simp[ly] confusing the judge. It's in the gover[n]ment's interest to "present as small a slice of that transaction as it can," sa[id] Wood. That might give the larger au[di]ence for the hearing just a taste of wh[at] they had hoped would be a feast.

By Michele B. Galen in New Yo[rk]



WITNESSES FOR THE PROSECUTION

IVAN F. BOESKY
Arbitrageur and convicted felon. Might corroborate sweeping allegations of an illegal, three-year trading scheme with Milken

DAVID B. SOLOMON
Money manager. Might testify that Milken provided lucrative investment opportunities in exchange for doing business with Drexel

CARY J. MAULTASCH
Former Drexel bond trader. Might detail allegedly illegal trading between Boesky and Drexel

PETER R. GARDINER
Former Drexel bond trader. Might discuss charges that Milken manipulated the stock of Wickes Cos.

Some companies wake up earlier than others.

It may not be the eleventh hour. But if you're trying to confront the explosive growth of health care costs, it's getting late.

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See one of our local representatives or fax Bob O'Brien, President, CIGNA Employee Benefits Companies: 215-523-7915.

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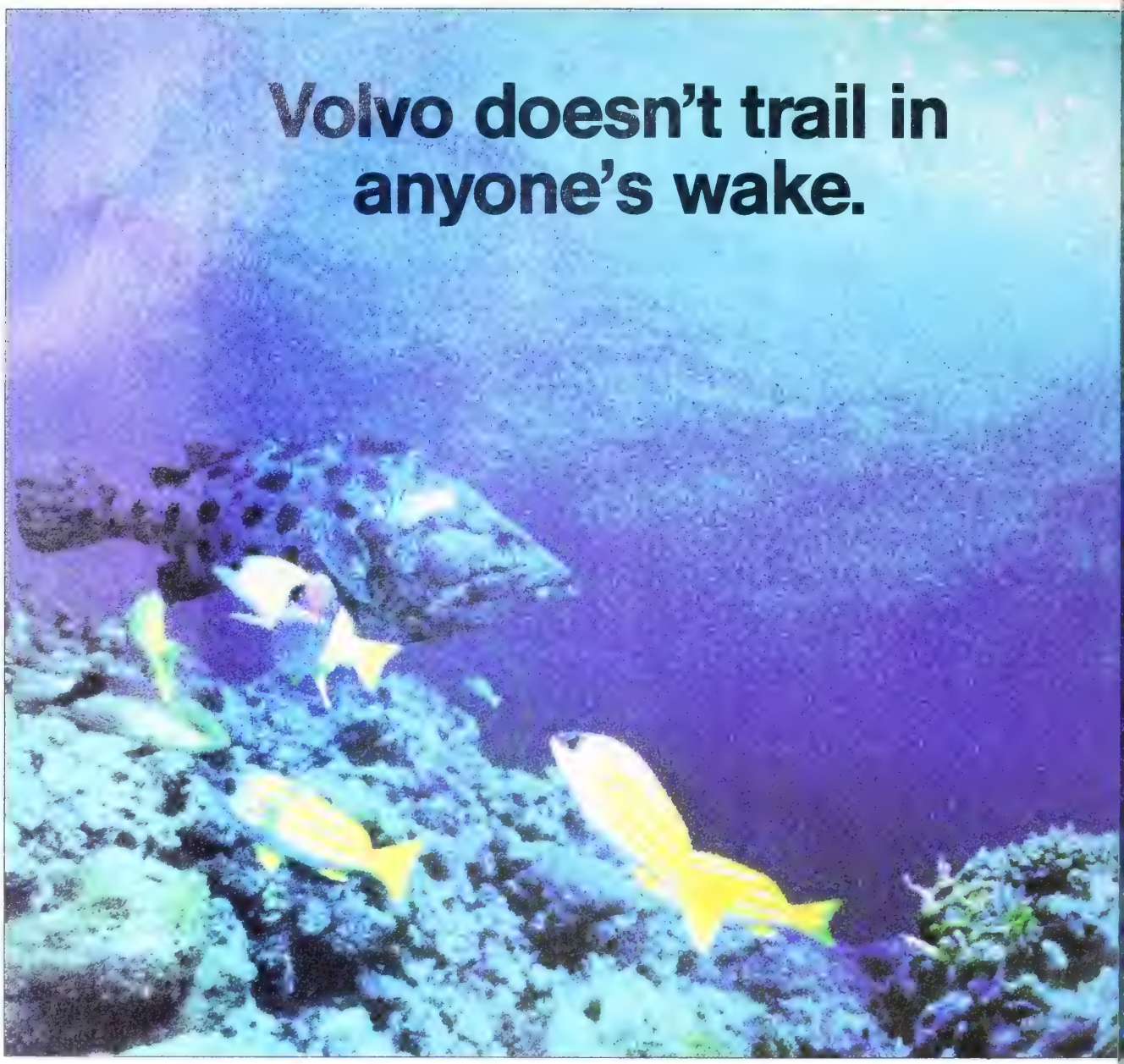

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In 1959 Volvo stunned the New York Boat Show with the sensational launch of the Aquamatic-drive, which linked the advantages of the inboard engine with the superior maneuverability of the outboard. Overnight, the leisure boat industry was revolutionized.

In 1982 a series of new innovation was launched, including the remarkable Duoprop with its twin, counter rotating propellors. Described as the equivalent of nautical four-whe drive, the Duoprop improved acceleration by 30 percent, lowered

el consumption by 10-12 percent, creased top speed, reduced ration and noise, and provided tter handling.

Volvo has proved the engines that wer its cars can be adapted me-ulously by Volvo Penta to success-ly propel boats across water. But demands a healthy company mate and people with a natural ent for thinking along new path-ays.

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VOLVO

Commentary/by Chris Welles

MIKE MILKEN IS NO ANGEL. BUT HE'S NOT SATAN EITHER

A hard-core criminal whose empire was rooted in illegality? Or a brilliant financial pioneer who slipped over the line and committed a few innocuous offenses?

U.S. District Court Judge Kimba M. Wood will weigh these divergent views of dethroned junk-market king Michael R. Milken in an extraordinary two-week hearing scheduled to start Oct. 11. She will eventually sentence Milken for six mostly minor felonies to which he pleaded guilty last April. But to get a clearer fix on whether Milken's wrongdoing was pervasive or aberrational, she acceded to a request by prosecutors to consider additional allegations (page 102).

The hearing, featuring testimony by numerous witnesses, will center on four instances that the government claims will demonstrate a more flagrant pattern of criminality than the counts to which Milken pleaded guilty. Some clues to how the hearings will turn out are contained in lengthy presentencing memorandums submitted recently to Wood by the government and defense. A comparison of arguments suggests that the outlook for Milken is not auspicious. The evidence shows a recurring willingness by Milken to use illicit tactics to bolster his powerful network of junk-bond issuers and buyers.

WEAK LINKS. True, Milken seems far from the nefarious villain depicted by the government. His crimes, such as parking stock, seem less blatant and contemptible, less indicative of an inveterate criminal mentality, than those committed by Ivan F. Boesky and your average penny-stock swindler. Although it scrutinized more than a million transactions and secured the cooperation, through immunity grants, of many people who worked closely with Milken, the government did not unearth systematic insider trading. Its memorandums contain only one allegation that Milken traded on inside information for personal gain. The facts in that instance, involving Caesar's World Inc. bonds, are ambiguous. This transaction will be considered in the Wood hearing. The government mentions three additional insider trades, but all were conducted by other Drexel Burnham Lambert Inc. employees. Evidence directly linking Milken to the trading seems weak.

Although the government accuses Milken of "unlawfully influencing corporate events," it offers no evidence other than Victor Posner's acquisition of Fischbach Corp. in 1985 that Milken rigged takeover deals. The government further claims that Milken regularly cheated clients. As its principal example, the government charges that Milken masterminded schemes by a Drexel employee and an official with Princeton/Newport Partners to manipulate stock in Drexel clients COMB Co. and U.S. Home Corp. Drexel allegedly benefited from the schemes at its clients' expense. Yet the government concedes evidence that Milken was directly involved in the manipulations is only "circumstantial." Federal investigators have contended that Milken's dealings with thrifts contributed to the savings-and-loan debacle. But the government's memorandums to Wood makes only two allegations related to S&Ls: stock-parking schemes with Columbia Savings & Loan Assn. that had negligible financial impact on the thrift.

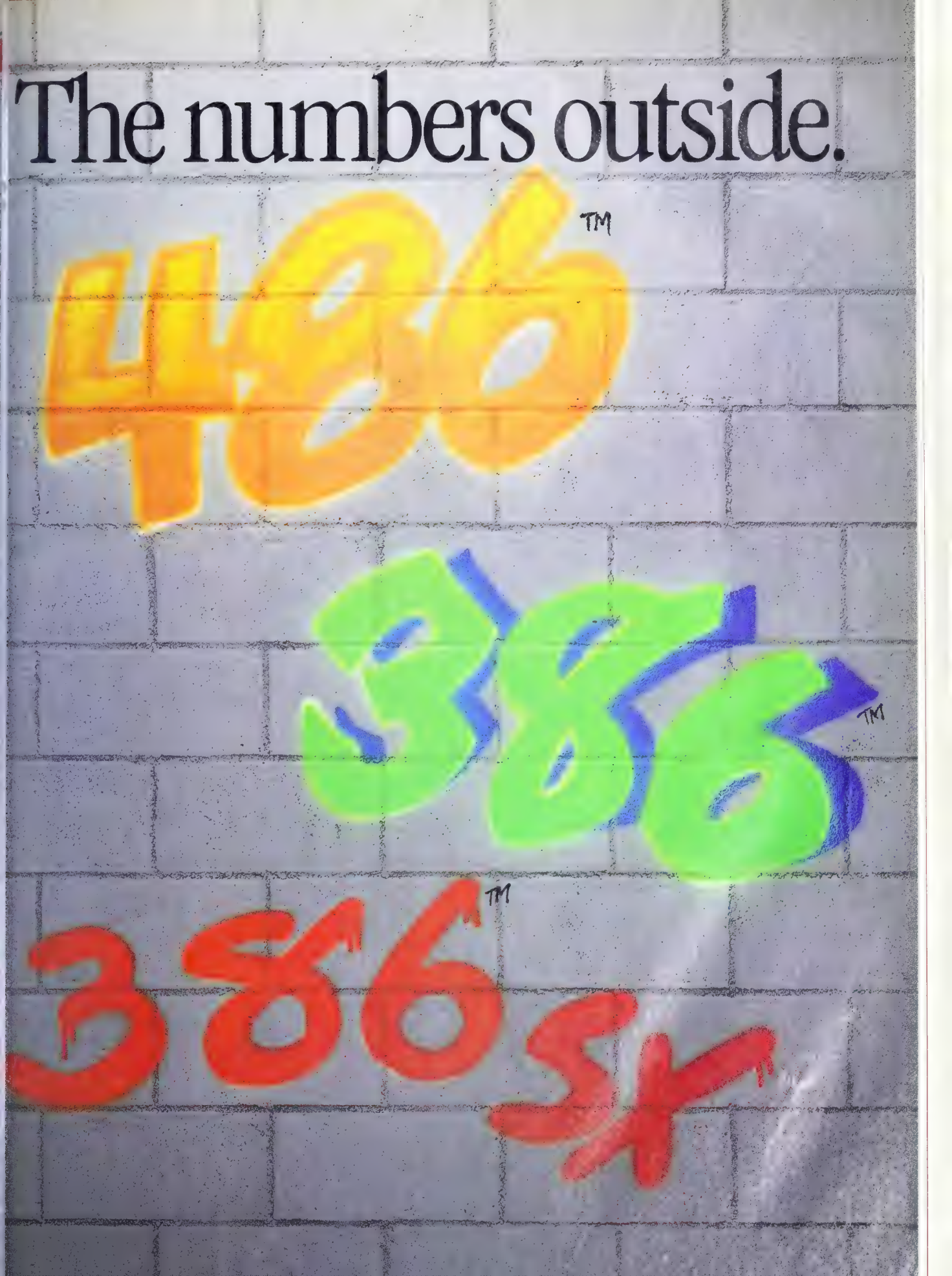
The government is on firmer ground in contending that Milken often bent the law to help such clients as Boesky and junk-bond manager David B. Solomon evade taxes and commit other crimes. Milken, in turn, used Boesky to commit further illegal acts. Milken has already admitted to enlisting Boesky to buy MCA Inc. stock that Drexel client Golden Nugget Inc. wanted to unload. Milken said the scheme let Golden Nugget receive a "better price" for the stock. The Wood hearing will focus on another Boesky-related manipulation, allegedly to facilitate an exchange offer by Wickes Co. The government's evidence of rigging in this case seems strong.

REAL TRAGEDY. The government is also persuasive, if not totally convincing, in alleging that Milken employed illegal tactics in his junk-market dealings. It asserts that Milken bribed money managers and other investors with lucrative investment opportunities to get them to buy junk offerings. The defense argues—not too credibly—that such inducements were legal because the money managers bought into the opportunities at nonpreferential prices. The Wood hearing will examine the one case offered by the government of such alleged bribery: Drexel's financing of Kohlberg Kravis Roberts & Co.'s 1985 acquisition of Storer Communications Inc.

Although it offers no specifics, the government claims that buyers of junk offerings, especially hard-to-sell deals, were lured by Milken's promises to buy securities back later at no loss to the buyers. The defense claims such buybacks were at market prices. But as the government correctly points out, that ignores Milken's "enormous discretion" over junk prices.

It seems likely, in sum, that illicit accommodations and inducements were ingrained in Milken's modus operandi. But they were almost certainly not central to his power. Milken was a financial genius who would have been extremely successful without finagling. That is the real tragedy of his downfall.

There are other questions affecting how Milken's legacy should be judged, such as whether his achievements in creating the junk market outweigh his role in fostering the financial excesses of the 1980s. On balance, he probably did more good than harm. For now, though, it seems clear that Milken not only broke the law but broke it regularly. He deserves a few years in the slammer to think it over.


The numbers outside.
486™
386™
386SX™

CORPORATE FINANCE

THE AWKWARD MATING DANCE OF CORROON AND WILLIS

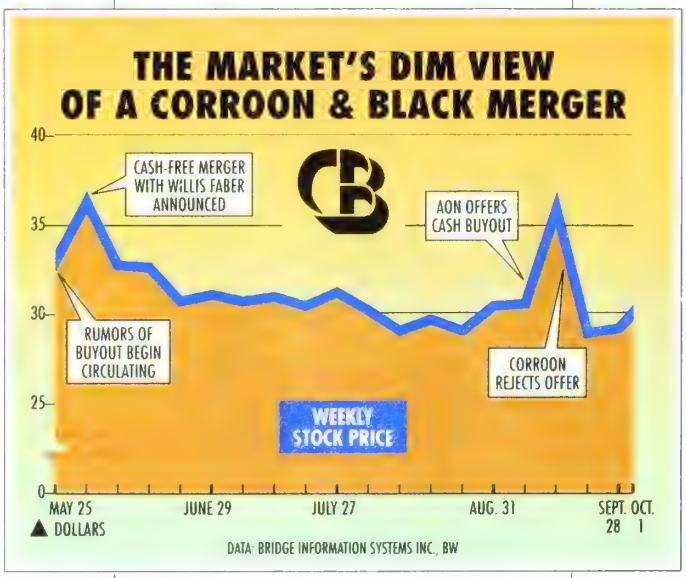
Will the U.S. insurance broker's shareholders nix the British offer?

To its engineers, the merger of New York's Corroon & Black Corp. and London's Willis Faber PLC would create a transatlantic insurance dreadnought. With each company bringing its own extensive domestic network, the new Willis Corroon would be the world's fourth-largest insurance brokerage. "To sell insurance," says Corroon CEO Richard M. Miller, "you have to use natives."

Unfortunately, the 58-year-old Miller, who has staked his reputation on the $643 million merger, is having trouble selling it to his shareholders. He plans a stock swap with Willis, worth about $31 per share to Corroon shareholders. This has one big virtue: It costs the two partners next to nothing. The flip side is that nobody's shareholders get a premium. So, Aon Corp., a large Chicago-based insurer and broker, topped that by offering $40 a share in cash for Corroon. Aon withdrew the $840 million bid after Corroon's board rejected it. But BUSINESS WEEK has learned that Aon investment bankers are still at work on the proposal, apparently looking for an opening. Aon CEO Patrick G. Ryan says coyly: "If Corroon has an interest, we would expect them to call."

NO CASH DOWN. Disgruntled Corroon shareholders may make that happen after their votes are counted at a meeting scheduled for Oct. 8. "Aon provided better value to us," says DeWitt F. Bowman, chief investment officer at the California Public Employees Retirement Fund, the nation's largest public pension plan, which will vote its 106,200 shares against the merger. Arbitrageurs, led by Bear, Stearns & Co., have launched a campaign to persuade others to deep-six the Willis deal. At this point, says Michael A. Smith, an analyst at Shearson Lehman Brothers Inc., "the merger is a toss-up."

A plus for the Corroon-Willis marriage is that almost 30% of the American brokerage's stock is held by managers and employees. They have an incentive to vote yes: A matchup with the foreign company is less likely to require staff reductions because Willis has no duplicative U. S. operations to pare. As an added enticement, Corroon pledges a $2.50-per-share special dividend once the merger is approved. Willis, whose stockholders overwhelmingly accepted the plan on Sept. 28, remains committed to Corroon. Says Willis CEO Roger J. Elliott: "We are building an international business for the future."



That lofty notion hasn't exactly excited the market (chart). Just before the June merger announcement, buyout rumors made Corroon stock surge. Then, when Wall Street heard this was a cashless deal, it slumped again. The stock staged a brief rally after Aon's Sept. 12 bid, ending with the bow-out of the Chicago company, which says it doesn't want to make a hostile bid. Willis shares have fared similarly in London.

From a business standpoint, which combination would be best? The re
ings are mixed. Willis and Corr
would give each other access to
new markets. But Aon, as a multi
insurer that both writes and brokers
surance, has nine times Corroon's a
base of $1 billion. That gives it m
leverage to expand Corroon's busin
since Willis has only two times
roon's assets. For Aon, Corroon's ap
lies in its ability to beef up Aon's bro
age of property and casualty ins
ance—an area that is expected to re
er next year from a devastating l
1980s price war. Corroon, which lines
coverage for midsize commercial clie
is well positioned to share in any
bound: After an anemic past four ye
net income for 1990's first half was
12% from the same period in 1989.

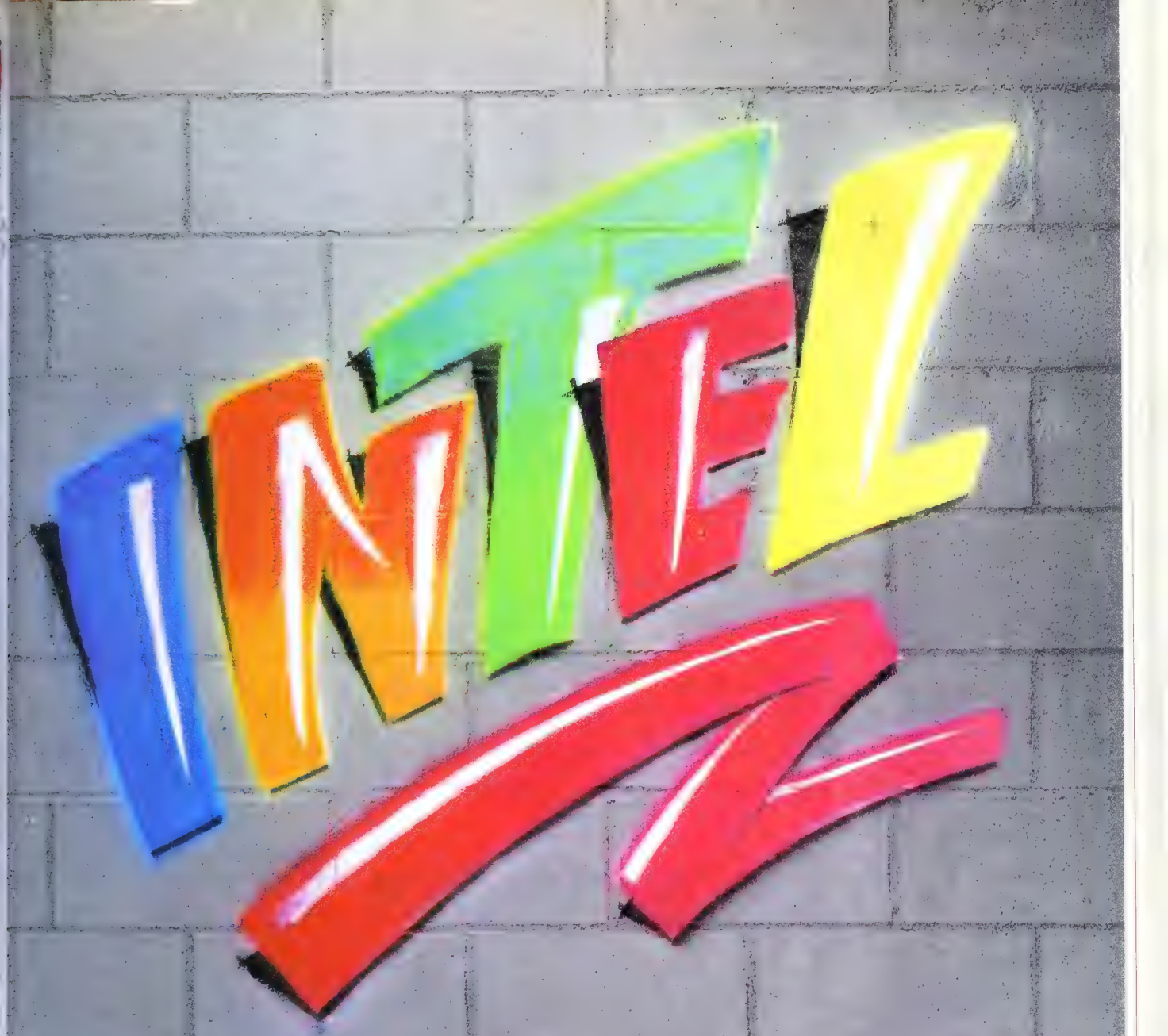
SECRET MEETING. A Willis-Corro
union, meanwhile, would end frustrat
efforts by both companies to expand
ternationally. Corroon sought to
Britain's Minet Holdings
in 1988, but St. Paul Cos.
bid it. Willis, which is expa
ing on the Continent,
thwarted in attempts to g
a big U. S presence. It trie
and failed—to buy Johnson
Higgins, a large New Yo
based brokerage with which
had a century-old relations
of business referrals. The
vately held concern wanted
remain independent.

To avoid upsetting this
partner, Elliott, 57, held
first meeting with Miller
February, at a suburban N
York hotel where they we
unlikely to be spotted. Aft
hearing the Corroon news
June, a peeved Johnson
Higgins severed ties to Wil
and sold a 5% stake in it.

If nothing else, Corroon and Wil
would make a sociologically interesti
pairing. Under Miller's patrician pre
cessor, Robert F. Corroon, the brok
age was modeled along the genteel lin
of Willis, with a low-key pursuit of
ents. But since Miller, an assertive f
mer Marine, took over three years ag
Corroon has gone after business mo
forcefully. His strategy has includ
purchasing a raft of small brokerage
Miller, who would be second-in-comma
under Elliott, insists the two cultur
can achieve harmony: "The British us
to be overly civilized. Now, they are
aggressive as we are." Viewed in th
light, the Corroon stockholder fight is
fitting introduction to American life.

*By Larry Light in New York, wi
Richard A. Melcher in London and Da
Greising in Chicago*

> A Willis-Corroon union would end frustrating efforts by both companies to expand internationally



The computer inside.

Since buying a computer today is such a numbers game, here's a simple rule of thumb. Look for 386™SX, 386™or 486™on the outside to be certain that you have Intel technology on the inside. From the company that invented the microprocessor. The company that has shipped over 10 million 32-bit processors. The same company that's investing over $1 billion this year to make sure the computer inside your computer has the technology, power and compatibility to take you into the future.

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BY GENE G. MARCIAL

SOME SURPRISING PICKS FROM SOGEN'S TOP PRO

Despite the market's recent rally and a break in oil prices, investment manager Jean-Marie Eveillard expects stocks to continue heading south. The president and investment chief of SoGen International Fund, a New York-based unit of France's Société Générale, is deeply worried not only by Saddam Hussein's next move but also by the U. S. economy's huge debt burden.

Eveillard has been a bear all year, and in July slashed SoGen's investment in equities to 35% from 50% early in the spring. Of the 35%, two-thirds is in U. S. issues. Eveillard prefers offbeat companies, and so far, that strategy has produced handsome returns for SoGen's $200 million portfolio. Over the past decade, SoGen has had compounded yearly growth of 20%, vs. 17% for the Standard & Poor's 500-stock index.

Eveillard says two factors are essential to finding a winner: a "cheap price and favorable circumstances, in that order." Cheap, says Eveillard, means a relatively low price-to-earnings ratio as well as modest price-to-cash-flow and price-to-book-value multiples. "Favorable circumstances" means consistent growth of 15% to 20%, a strong balance sheet, unrecognized assets, and decent management, he says.

Eveillard has been buying conservatively run Republic New York, a commercial bank; Texas Instruments, a turnaround bet; and Thomas Nelson, a publisher of bibles and other religious books, because it's in a noncyclical business that shows solid growth and has a p-e of only 11 on estimated 1991 earnings. He also likes Allen Organ, a growth company that has been "extremely profitable," has lots of cash and no debt, and is expanding into overseas markets such as South Korea.

S&L WINNERS. But what will really raise eyebrows on the Street is that Eveillard is buying savings-and-loans. Some of his picks: New Jersey's New Charter One Bancorp (formerly Charter Federal Savings), Cleveland's Charter One Financial, and New Hampshire's Portsmouth Bank Shares. All have equity of 9% to 15% of total assets, with loan portfolios that are about 85% single-family residential mortgages. Eveillard notes that the loan portfolios have grown at a modest 2% to 3% annually, indicating that these thrifts haven't been indiscriminate in their lending. And these S&Ls' loans are only 60% of deposits, he adds.

SoGen's biggest position in the U. S. is in Hancock Fabrics, a textile-retailing chain that has shown recession-resistant characteristics, says Eveillard. It posted an earnings jump of 24.4% in the second quarter despite an industry slump.

A BIG BEAR'S FAVORITE STOCKS

	52-week high	Current price
ALLEN ORGAN Electronic organs	$38⅛	$28½
CHARTER ONE FINANCIAL S&L	22	10¾
HANCOCK FABRICS Fabric retailer	41¼	34
LONGVIEW FIBRE Pulp and paper	14⅛	10
MANPOWER Employment services	18¼	10⅝
REPUBLIC NEW YORK Commercial bank	52⅜	39⅜
TEXAS INSTRUMENTS Semiconductors	44	26¾
THOMAS NELSON Bible publisher	8⅞	8⅜

DATA: SOGEN INTERNATIONAL FUND, BW

WHAT'S TISCH UP TO AT CHAMPION?

The Mideast crisis notwithstanding, it may be takeover season on Wall Street again. Many pros insist that with MCA in play and UAL's unions expected to get a loan commitment from banks for their buyout of the airline any day now, the question is: Where will the next deal strike?

Maybe in the paper-and-forest-products group. Says one New York investment banker: "Assets in the industry have become way undervalued, making it an ideal target for strategic asset buyers, especially those from Europe."

Some money managers who have started scooping up shares of paper companies agree. Their top bet: Champion International, one of the world's largest paper producers. Earnings have declined in recent quarters. That, plus the market dive and the oil-price leap, caused the stock to skid to 24 in late September. Since then, some organized buying has emerged, lifting the shares to 27. Champion owns or controls 6.4 million acres of timberland.

"The stock is a cheap buy at current levels," says Joe Kasputys, president of Primark, which has clearance from the Federal Trade Commission to buy more than $15 million worth of Champion's shares—about 560,000 at the current price—out of 93 million shares outstanding. Kasputys wouldn't say how many shares he has accumulated.

Larry Tisch has also stepped up his buying of Champion stock, raising his stake to 10.99% from less than 4% in April. Through Loews, of which he's chairman and CEO, Tisch is seeking FTC clearance to buy more than 15% of Champion's shares. Tisch is believed to be intent on raising Loews's stake to 20%, and he is seen as the potential catalyst for pressuring Champion executives into taking steps to boost the stock price. Management owns a stake of about 1%.

Analysts put Champion's asset value at $70 a share. Says one: "Champion sells for 73% of its stated book value, the deepest discount in the paper-and-forest-products group." A Champion spokesman declined comment.

SUN MAY BE READY TO SHINE

Shares of Sun, the big oil refiner and marketer, have dived from 41 in June to a 52-week low of 31. That may make it the next big play in the volatile oil game.

Why? The surge in oil prices has clobbered oil refiners and petroleum product marketers because President Bush won't allow them to fully pass on crude's recent price jump to customers. That has crimped margins. But what if oil prices broke precipitously? Some big investors believe that could happen, and they're putting their money on Sun. Since the company's largest cost is crude, "its margins spike up every time oil prices fall," notes Fred Leuffer, a veteran oil-industry analyst at C. J. Lawrence, Morgan Grenfell.

"When the oil crisis eases, Sun will be among the best-positioned companies to benefit because it runs its refineries more efficiently and at higher operating rates," adds Leuffer. And Sun's sophisticated refineries can process heavier—and much cheaper—crude than many rivals can.

Leuffer says the stock should hit 4 once earnings regain momentum, which he expects over the next two to three quarters. For next year, he sees a rise to $3 a share from a projected $2.80 this year, vs. last year's 92¢.

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Ireland
Italy
Japan
Liechtenstein
Mexico
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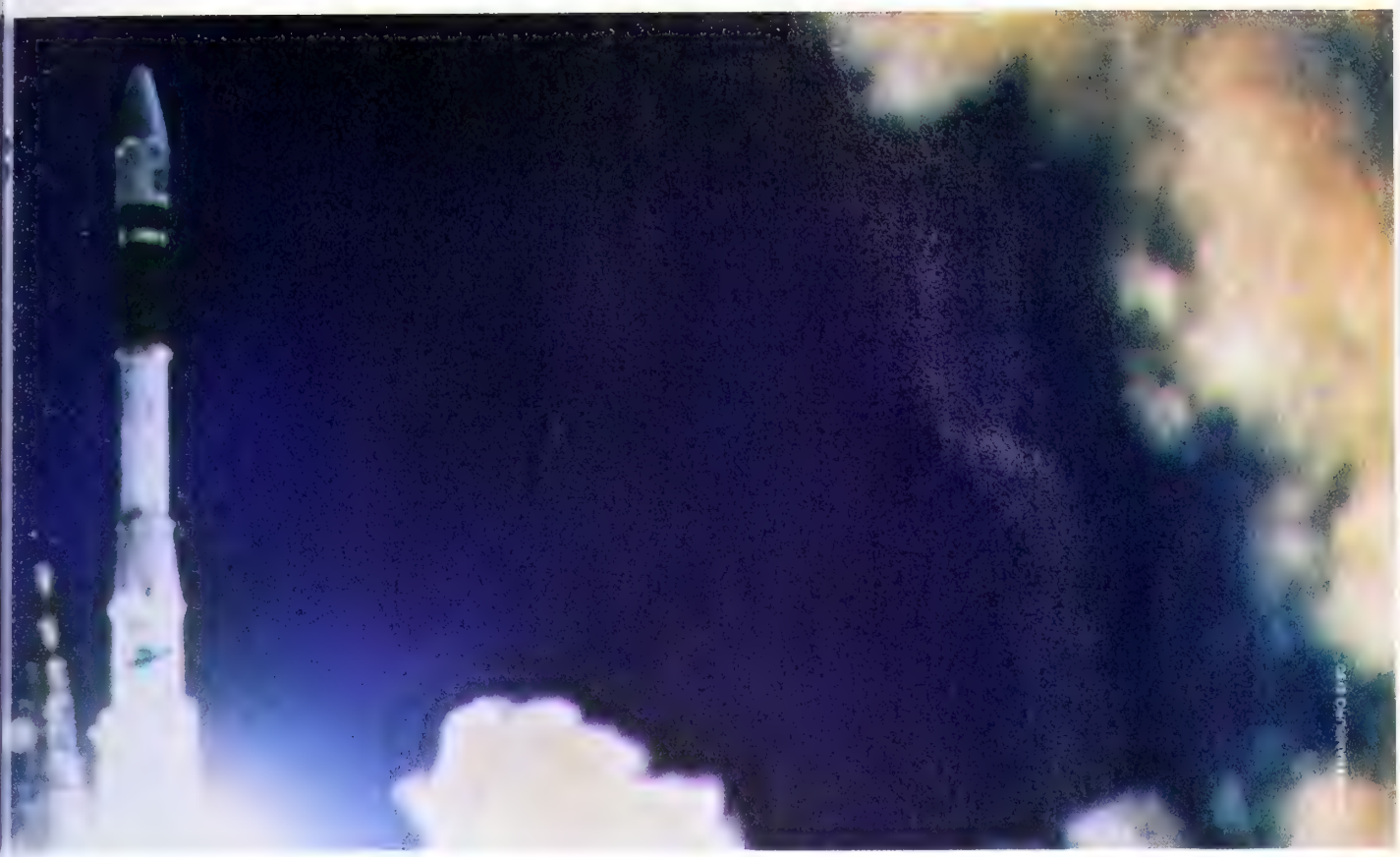

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DEALS

EVEN FOR MICHAEL OVITZ, $8 BILLION IS A BIG DEAL

The superagent plays matchmaker between Matsushita and MCA

It was a talent agent's dream. Dustin Hoffman, cradling his Oscar for his leading role in *Rain Man*, was doling out the traditional thank yous. Near the top of the list, right after co-star Tom Cruise, was superstar agent Michael Ovitz. "He made this project stick with glue even when it was falling apart," Hoffman told the packed Shrine Auditorium crowd.

OVITZ HAS BEEN SCOUTING FOR MATSUSHITA SINCE EARLY 1990

For most of the last decade, Ovitz has arguably been the most powerful man in Hollywood. A martial arts expert, the sandy-haired, 43-year-old talent agent has forced films to be made, stopped others, and even helped topple the head of a major studio. Operating more like a studio than a talent agency, his Creative Artists Agency has skillfully packaged film and TV projects with heavyweights such as Bill Murray, Robert Redford, and Steven Spielberg. For the past two years, however, the super-secretive Ovitz has also become a point man for Hollywood's wave of corporate dealmaking.

MR. ROLODEX. Since early this year, Ovitz has been scouting for a Hollywood studio for Japanese electronics giant Matsushita Electric Industrial Co. Several weeks ago, according to sources close to the deal, Ovitz brought together Matsushita and MCA representatives at MCA Inc.'s New York offices for an exploratory meeting. On Oct. 7, the two companies are expected to begin fleshing out the details of a Matsushita buyout of the Los Angeles film and theme park company. Sources say that Matsushita is willing to pay $6 billion for the movie and record subsidiaries. MCA said to want nearly $8 billion for the entire company.

Ovitz declines to comment. But industry sources say the CAA chairman is driven by grand ambitions. He has been luring Harvard-trained MBAs away from studios and Wall Street firms for over a year so that he can add corporate clients to the TV and movie stars who bring his 75-agent firm an estimated $75 million a year in billings. Last year, CAA helped Canadian-based Archer Communications Inc. license its sound system to TV-commercial and record producers.

Ovitz was elevated to corporate dealmaking's big time in late 1989 when he advised Sony Corp. on its $3.4 billion purchase of Columbia Pictures. Sony hired Ovitz during the previous summer. "He gave us advice about who was key and influential at various companies," says Michael Shulhof, Sony Corp. of America's chairman.

Until then, Ovitz was known primarily for packaging CAA stars, directors, and CAA-commissioned scripts for star-struck studios. With his mogul-rich Rolodex, Ovitz lined up meetings for Shulhof and Walter R. Yetnikoff, an Ovitz friend and head of Sony's CBS Records unit. "Michael knows how to get people together," says longtime friend Michael D. Eisner, Walt Disney Co. chairman. "In another business, he'd be called an investment banker."

Ovitz' assessment of a prospect's upcoming movie and TV projects was critical. Sony backed away from MGM/UA Communications Co., in part, because the price was too high for a debt-laden studio that wasn't luring top talent. Columbia, by contrast, had revived its production schedule after firing British filmmaker David T. Puttnam.

The Puttnam episode showed Ovitz' clout. The agent put CAA's roster off-limits to Columbia, hastening the firing of the studio executive. When Dawn Steel was installed as Puttnam's successor, Ovitz lined up Bill Murray, Dan Akroyd, and the other *Ghostbusters* actors to make the sequel that had eluded her predecessor.

Matsushita hired Ovitz shortly after the Columbia deal on the recommendation of Seiichiro Niwa, a key executive of Matsushita subsidiary Victor Co. of Japan Ltd. The 51%-owned video unit was in the midst of making a $100 million investment with Hollywood producer Lawrence Gordon. It was also negotiating a distribution deal for MCA records. Ovitz' office denies any involvement in either deal. But for much of the last year, the Hollywood agent has been shuttling between Los Angeles and Osaka to keep Matsushita executives up to date on the mood in Hollywood.

MCA has had on-again, off-again merger talks with Paramount Communications Inc. over the years. Last year, talks broke down because Paramount Chairman Martin S. Davis and MCA Chairman Lew Wasserman could never agree on who would run the combined company. This spring, say sources, Ovitz contacted MCA's investment bankers at Lazard Frères & Co.

HOMETOWN BOY. The MCA deal would represent a milestone for Ovitz. A Los Angeles native who went to high school with Michael Milken, he rose from the mail room at the William Morris Agency to become a TV agent. In 1975, he and five others broke away to start their own agency. Hollywood insiders say CAA was paid $10 million for the Columbia deal and could make $50 million if the MCA deal is completed.

So does Michael Ovitz want to take the next step and run a studio? That's the most persistent rumor in Hollywood these days, though CAA officials vigorously deny it. Some industry executives think he would sell off the agency to head a Matsushita-owned MCA. But the deal may never happen. MCA has engaged in takeover talks before. Ovitz may be able to put movie projects together with glue, but making an $8 billion takeover stick is now out of his hands.

By Ronald Grover in Los Angeles, with Susan Duffy in New York

THE BIG PLAYERS IN MCA

Holder	Number of shares Millions
DAVID GEFFEN*	9.8**
CAPITAL GROUP FUNDS	5.3
LEW WASSERMAN, CEO	4.9
ESTATE OF FOUNDER JULES STEIN	3.9
SIDNEY SHEINBERG, COO	1.3
TOTAL COMMON OUTSTANDING	83.2

*Chairman of David Geffen Co., acquired by MCA in April

**Includes convertible preferred shares

DATA: COMPANY REPORTS

Commentary/by Neil Gross

JAPAN'S HOLLYWOOD: MORE OMINOUS THAN IT SEEMS

When Sony snapped up Columbia Pictures a year ago, there was a loud outcry over ıe selling of a bit of America's soul to ıe Japanese. Sony Corp. executives ımmarily dismissed the howls as racm. But in fact, Americans had good ason to feel uneasy, and the pending arriage of Matsushita Electric Indusial Co. and MCA Inc. should trip the ıme alarms. These deals are bound to rengthen our toughest rivals in high chnology.

At first blush, such arguments may em overblown. Japan, after all, is no reat in entertainment. Hollywood is rdly Silicon Valley. And America rote off consumer electronics more ıan a decade ago. But ıe media/technology nglomerates Sony ıd Matsushita envion constitute a new odel of vertical inteation. Unlike any exting companies, these vo will control both ıe medium and the essage in what the ıpanese call the New ıformation Age.

Both companies unerstand that the highch landscape is ıanging. Lines beveen consumer and inıstrial electronics are urring as computer, ıdio, and video techologies converge. Aleady in Japan, compaes that sell color TVs so make the hottest ptops. Sony's Trinion wizardry has made it a leader in gh-resolution computer displays. ny also builds successful workstaons, while Matsushita is developing ıpercomputers.

ULTIMEDIA MAGIC. Both companies e also leaders in high-definition telesion, which uses computer-like cirıitry to deliver film-quality pictures. he next frontier may be multimedia achines, where the consumer comands his own world of audio and vidı data. Applications will include more alistic computer games, training simations, and even movies in which the ser directs the plot. "Multimedia ught the imagination of the Japanese arket faster than anywhere else in the world," says Apple Computer Chairman John Sculley.

American computer companies are working feverishly on developing these businesses, too. But if the Hollywood sell-off continues, U.S. outfits may find the path barred by high-tech Japanese media giants that could use American movies and TV programming to help give their hardware the edge—first in Japan, then everywhere else.

Sony has already shown how owning recorded entertainment such as music, movies, and TV shows can help launch new electronics products—the "synergy" that Sony President Norio Ohga says justifies the move into entertainment. For example, Sony is stamping

Columbia films into 8-mm tape for sale in Japan and the U.S. Eventually, they'll hit the rental shops, where they will help fan the sales of Sony's already red-hot 8-mm camcorders.

A Sony win in camcorders is harmless enough. No American company makes them. But even where Americans have no comparable hardware product, Japan's "synergy" can cause problems in the U.S. market. Take digital audiotape recorders. Critics warned in 1987, when Sony bought CBS Records, that the music giant could wind up as a launchpad for Japanese DATs. Sure enough, titles under the CBS label will start popping up next month on shelves in Tokyo, despite a lawsuit by American recording artists who are worried about inadequate copyright safeguards.

The next testing ground for the synergy formula may be HDTV. Under pressure from the Big Three networks, the Federal Communications Commission blocked Japan's satellite-based "Hi-Vision" system from becoming a U.S. standard. That gave American HDTV hopefuls such as Zenith Electronics Corp. some time to develop equipment, which, unlike Japan's version, would be compatible with today's television. But with Columbia and MCA, Sony and Matsushita could generate years' worth of HDTV programming—giving Japanese consumers a reason to shell out thousands of dollars for one of the new sets. If, as a result, prices for HDTVs begin plummeting, companies such as Sony and Matsushita could probably rally American consumer support. That would make it tough for the U.S. industry to chart its own course in next-generation television.

OVERDRIVE. Synergy, of course, is just one ingredient. Plain economics is another. Demand for entertainment programming from American networks and cable-TV operators was worth about $7.4 billion in 1987, according to Prudential-Bache Securities Inc., and it should reach $11.4 billion by next year. Japanese demand, starting from a smaller base, is growing even faster. Cable TV is exploding. New satellite channels are coming on stream. Programming for the HDTV market alone could be a $9 billion business by the year 2000.

Aggressive investments in Hollywood by Japan's electronics companies are designed to supply that need. And if hybrid technologies such as multimedia take off, demand for programming could go into overdrive. American entertainment companies will see plenty of action. But by managing both sides of the business, Japanese companies have every intention of ending up in the driver's seat.

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THERE IS NO SECOND PLACE.

ANI: "WE MUST REGULATE THE PRICE OF OIL, EVEN AGAINST ANTITRUST LAWS"

OOK WHO'S BUBBLING ACK TO THE SURFACE

rmer Saudi Oil Minister Yamani wants to play oil power broker

The timing couldn't be better. Two months into the Persian Gulf crisis, several hundred oil industry vers and shakers from around the be will gather in London on Oct. 8 for two-day conference. Among those ieduled to take the rostrum are the airmen of four big oil companies, the ergy Ministers of Venezuela and ypt, and Kuwait's Finance Minister, Khalifa al-Sabah, who for years was it nation's Oil Minister. "It's the high- grade of speakers I have ever seen," rvels a sponsor of a rival conference. Who brought these glittering names ether? None other than Ahmed Zaki mani, the former Saudi Arabian Oil nister. Until his 1986 sacking, Yamani gned for more than two decades as e oil world's most influential figure. it of favor at home, the 60-year-old vyer largely disappeared from public w. But he quietly resurfaced early s year, when he founded a London- sed think tank devoted to oil issues. e October conference, sponsored by mani's new Centre for Global Energy udies, represents a coming-out of rts. No doubt about it: Yamani is try- g to forge a comeback.

Suave and diplomatic as ever, Yamani dismisses the notion that he's seeking a political resurrection in Saudi Arabia, where his relations with King Fahd remain cool. Rather, he professes a genuine desire to use his myriad contacts to play a mediating role among producers, consumers, and oil companies—working for market stability. Sitting behind an enormous antique desk in his opulent and well-guarded London office, he warns that the world economy is about to take another disastrous ride on the oil-price roller coaster. "I see again a sharp drop in oil prices, then another increase," he says. "We can avoid this."

Yamani's solution begins with the same siren song of moderate, stable oil prices that marked his days in power. "There's a long-term mutual interest between consumers and producers," he says. Yamani favors keeping oil at about $18 a barrel. That would give consumers an affordable supply, while providing a secure market for producers. He even proposes that consuming nations help fund capacity expansion in countries with big reserves—enhancing the interdependence of seller and buyer.

Indeed, Yamani says that current high oil prices don't reflect economic realities. "It's nothing but panic by the oil companies," which are keeping some 100 days' worth of inventory on hand for fear of supply interruptions. If these levels hold through the high-demand winter months, Yamani says $60 oil is inevitable—and that's without war, which might push prices to $100 if Saudi facilities were destroyed. But if companies slim down to 90 days' supply, he predicts that demand will ease, and prices will slip to the low 20s. To achieve that, he figures oil companies will have to collude—or be forced by governments to collaborate: "We must regulate the price of oil, even against antitrust laws."

Surprisingly, Yamani is optimistic despite the current standoff in the gulf. Once it is resolved, he says, cooperation might come easier. Facing up to Saddam Hussein "is like surgery to remove a cancer. The patient will be healthier afterward," he says. "I think the major powers will work hard to settle all the problems in the area, including the Arab-Israeli conflict."

That's certainly a welcome view. But is anybody listening? It's hard to tell. Joseph Stanislaw of Cambridge Energy Research Associates in Paris notes that Yamani "has a wealth of experience in dealing with this type of situation." Still, while Yamani has some big-name associates, one gulf oil official points out that most members of his advisory council are "formers," such as former West German Chancellor Helmut Schmidt and former U. S. Energy Secretary James Schlesinger. "Their influence is very limited. They're from Yamani's own era, which is past," says the official. Yamani, he adds, "is on an ego trip."

NO MORE PATSY. Yamani also carries political baggage that weakens his statesman role. Many in the oil world avoid getting too close to a man fallen from grace at the powerful Saudi court. "He's an intelligent commentator and a great personality," says one major oil company executive, who declined to be named for fear of offending Yamani. "But anybody who does business with the Saudi government has to be extremely careful" about dealing with Yamani.

Indeed, senior royal family members, including King Fahd, blame him for the mid-1980s oil revenue decline that sent the Saudi economy reeling. In fact, Yamani's policy of raising oil production and bringing down prices helped his country in the long run, says Massachusetts Institute of Technology economist Morris A. Adelman, by letting other OPEC members know they paid a price for overproducing at Saudi expense. Saudi Arabia "turned from being patsy to being policeman," he says. But Yamani "had to go because he had been

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the messenger bringing the bad nev

Younger Saudi technocrats a blamed Yamani—for failing to mod ize the oil industry and neglecting to Saudis in key positions. "The quicl way to lose friends in Saudi Arabia i say you're a buddy of Yamani's," sa top royal family adviser in Riyadh.

Such Saudi hostility now hampers mani's business. "You cannot have kind of organization run by someb who does not have contact with the S dis," says a well-placed gulf oil offi Another irony is that Yamani's Sa ties may also hinder his relations v Iran and Iraq. No one on his advis board or speaker platform is well- nected in either country.

A COMMON WALL. Yamani, with a per al fortune estimated at well over $ million, professes disinterest in his pe cal standing. Indeed, he installed his r $1 million-a-year center in a 19th-cent mansion next door to the Saudi gov ment's main London oil office. The even share a common wall and a sr parking lot. Nevertheless, he contin wooing oil industry heavyweights. "H still very much a man of the court," s a European oil executive, who recei declined an invitation to visit Yama sumptuous Sardinian villa.

When not talking about oil, Yam spends time on his yacht in the Medi ranean or at homes scattered around rope and Saudi Arabia—where his rent wife and their five children sp most of the year. Fascinated by anci manuscripts, he is trying to prese rare texts on optical disks. Yaman also a keen perfume mixer, sometir spraying his concoctions on visitors. in 1988, he gained control of a Sw luxury watchmaker. He plans to m ernize its production and double sales 1992, to 10,000 units a year.

Even detractors concede that Yam who was educated at Harvard and N York Universities, has a razor-sh mind and enormous charm. He also members those who stand by him. In 1975 kidnapping of Yamani and ot OPEC ministers by the terrorist Carlos Libyan delegate was killed while try to fend off the intruders. Yamani quietly taken care of the man's fam ever since.

Such loyalty is one reason Yam even out of power, commands attenti "People want to keep in touch," say high-level oil executive. "The dice m turn in Saudi Arabia. With a differ leadership, he could be back in a pow ful position." In the meantime, the o time king of oil is at least back in limelight.

By Mark Maremont in London, w John Rossant in Rome

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Personal Computers

Personal Copiers

Printers

Semiconductor Equipment

Still Video Systems

35mm Cameras

Word Processors

BASEBALL

THE BASEBALL OWNERS GET BEANED

Clubs will pay dearly for colluding—but weak teams will hurt most

When a few hardline baseball owners pushed for a lockout last spring, other clubs went along—for a few weeks. But as the start of the season approached, a majority of owners lost their stomach for a protracted fight and shoved through a settlement two weeks before opening day. The reason was simple. Flush with cash from fat new TV contracts that will bring in $1.5 billion by 1994, most owners just weren't that worried about escalating player salaries.

But since Sept. 17, the wad in the owners' pockets hasn't felt quite so thick. That was when an arbitrator slapped the clubs with $102.5 million in fines for colluding to violate the players' labor contract. With more damages pending, Major League Baseball's 26 owners may end up owing as much as $10 million each. That's almost half of the increase each club will get from new TV contracts in the next three years.

Even more troubling for owners, the ruling suggests that salaries may remain at higher levels. This is sure to renew griping by clubs in smaller cities, which were the primary force behind the lockout. "The decision proves there's no realistic mechanism to suppress bidding on players," says Roger C. Noll, a Stanford University economist who has done work for the players' union. "This will lower the value of new and existing franchises."

The ruling is the latest setback in the owners' decade-long efforts to control player pay. In the mid-1980s, after double-digit salary increases, owners decided simply to stop bidding on free agents, who, with six or more years in the majors, can sell their skills to the highest-bidding club. The effort worked like magic, and salaries plunged from more than 38% of league revenues to about 31% last year (chart). However, arbitrators ruled that the action violated the union's labor pact.

Most owners brushed off the arbitrator's $10.5 million assessment for collusion in the 1986 season. In fact, afterwards, they set up a data bank to share salary-offer information. But the latest decision, on 1987 and 1988, can't be ignored. The owners and the Major League Baseball Players Assn. both put forth formulas for determining the salary levels that should have been produced by a collusion-free market. The owners pegged the difference between collusion-free and actual levels at about $55 million. The players put it at some $125 million. The arbitrator adopted the players' formula with a few revisions. The $102.5 million now will be divided among players hurt by collusion. Some, such as Andre Dawson of the Chicago Cubs, stand to gain more than $1 million.

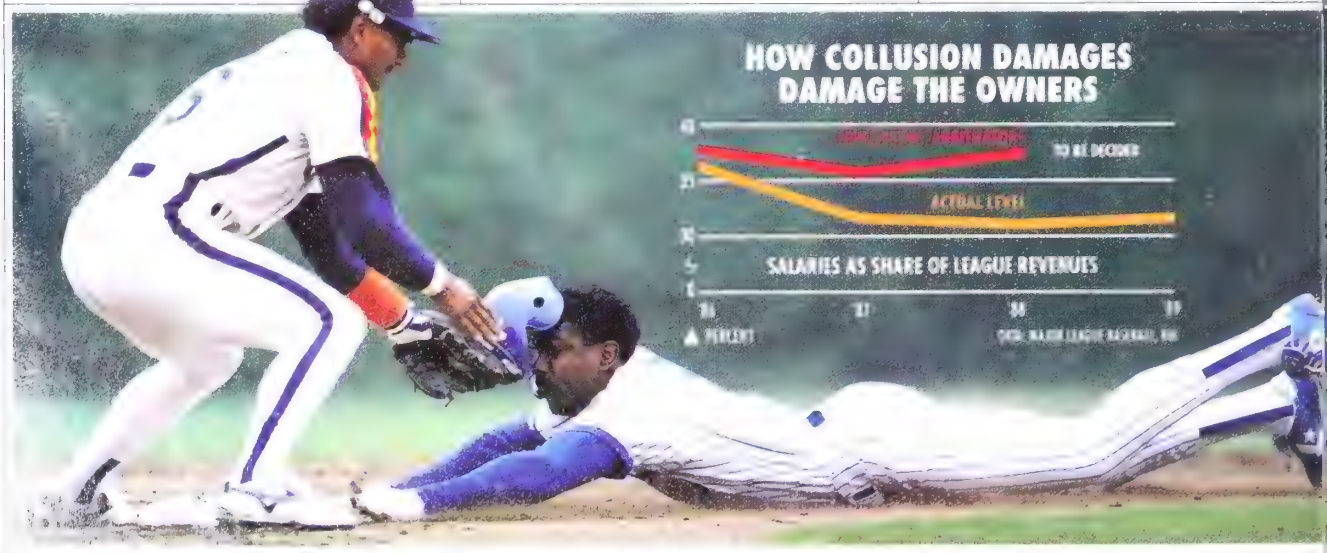
Under the ruling, players will continue to get about the same share of revenues they did before collusion. And unless owners want to risk still another collusion ruling, they may have to pay such levies indefinitely. "Clearly, the arbitrator has taken the union's position almost entirely," says Gary Roberts, a vice-dean of Tulane University's law school.

BIG BITE. Owners weren't expecting such high damages. A league contingency fund contains some $4 million per club. But when possible interest charges on damages for the 1989 and 1990 seasons are factored in, each team could wind up paying some $10 million.

The decision strikes smaller-city clubs particularly hard. They have complained for years that their big-city rivals reap lucrative local media revenues—which aren't shared among teams—to send salaries out of the park. The five poorest teams had player payrolls that averaged $8.5 million in the late 1980s, compared with payrolls of $16.5 million at five rich clubs. The fines "will have a hell of a different impact on a small club than, say, the Mets," says Louis A. Guth, an economist hired by the owners.

When the lockout was resolved last spring, both sides agreed to form a committee to study baseball's problems. It is charged with examining the owners' idea of capping total salaries at a certain percentage of revenues. With the battle over collusion largely over, the committee may get off the ground. But now that the players will be bargaining from an even stronger position. The likely result is more squabbles over money as baseball sides grow richer and richer.

By Aaron Bernstein in New York



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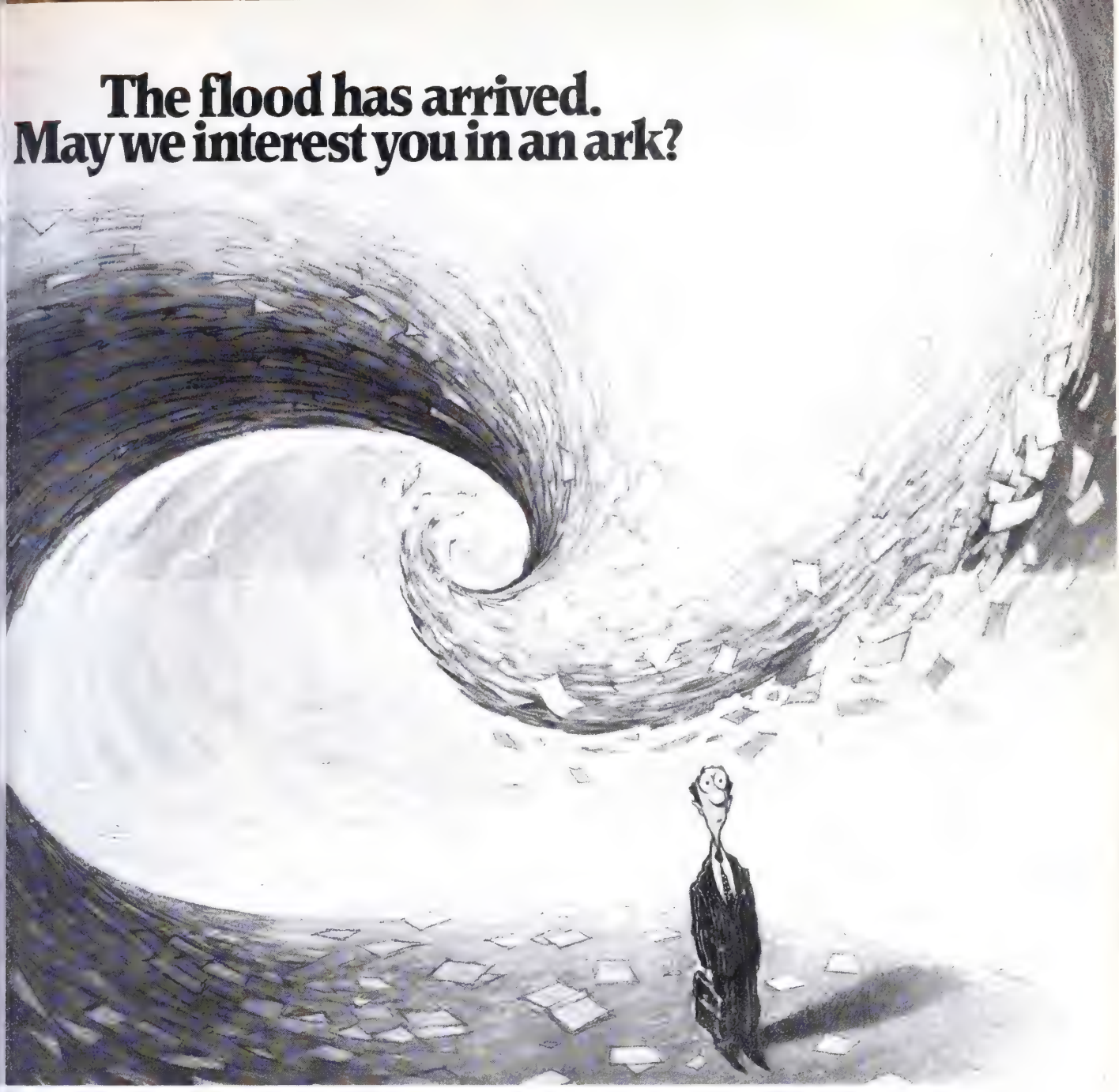

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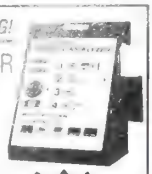

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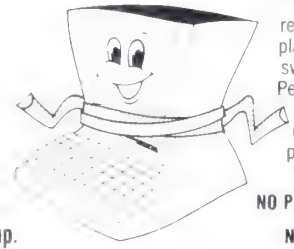

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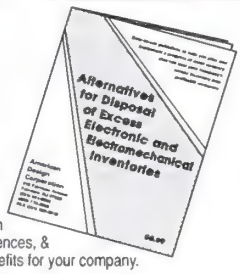

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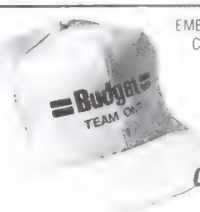

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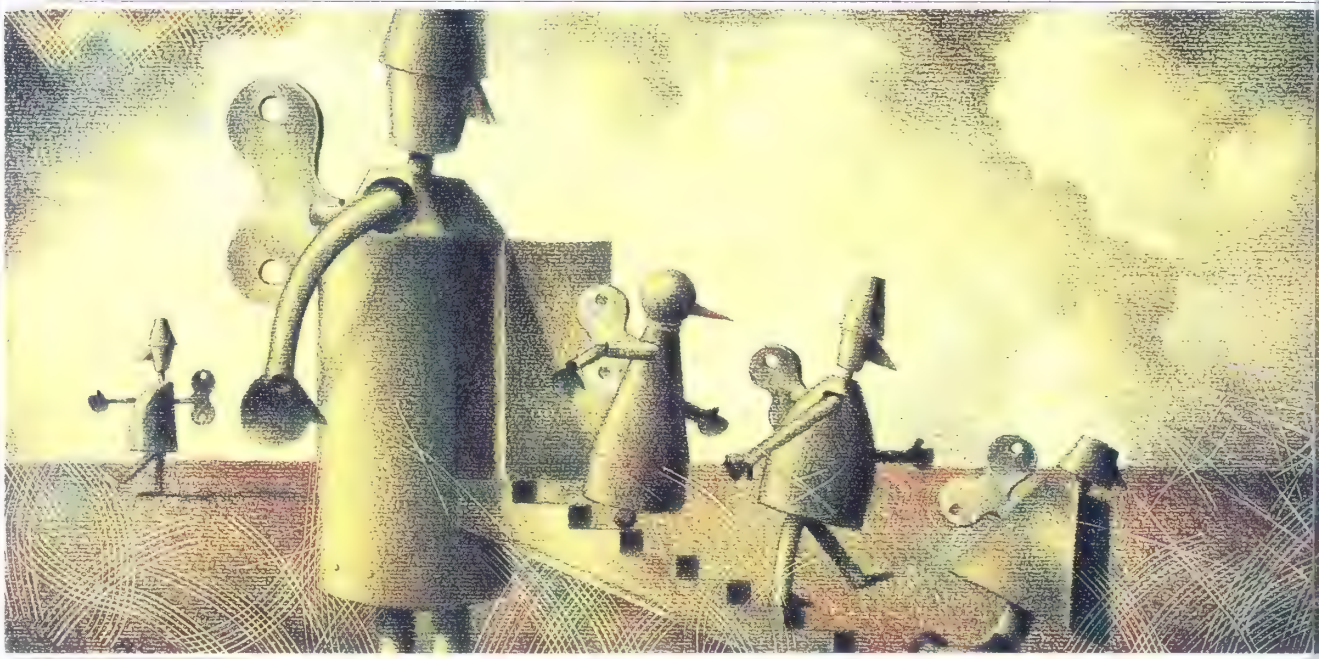

As conglomerates head back to the basics, more of their disparate divisions are being cast out of the corporate fold and onto the street—Wall Street, that is. Such "spin-off" stock usually arrives in shareholders' mailboxes with little or no fanfare. In the bull market of the 1980s, many investors who held these newly independent entities saw them generate impressive short-term returns. But in a declining market, should you risk betting on such unseasoned stock?

These corporate castoffs have had a good track record. In May, 1990, a Bear Stearns study showed that about half of the companies spun off from 1984 to 1988 appreciated [illegible] than 50%. Some rocketed even higher: York International and Masco Industries rose nearly 300%. No wonder that achieving quick capital gains with spin-offs used to be compared to shooting fish in a barrel.

But it's no longer a no-brainer. "The message isn't that every spin-off is a buy," says analyst Frederick Wise, who authored the Bear Stearns study. Now, "it's that they're a well-defined area for uncovering attractive values."

HANDICAPS. Corporations spin off companies for a variety of reasons. Some spin-offs are fast-growing divisions that are stifled in a huge corporation. Others are just misfits. One well-known example is General Mills's 1985 spin-off of Kenner Parker, its toy business. "The cereal business is a high-margin, predictable business," says Scott Greiper, managing analyst of *Bits & Pieces*, an institutional research report of spin-off valuations. "The toy business is unpredictable and capital-intensive. The two didn't belong together." Two years after being spun off at 16, Kenner Parker was acquired by Tonka for 51.

Interestingly, Kenner had been a troubled division under General Mills. The toy company is a good example of how a lackluster division can become profitable once it's on its own. Freed from corporate bureaucracy, management can be more focused and entrepreneurial. And if the spin-off merits a higher value now, raising capital may be easier.

But many spin-offs start with handicaps. They don't have great balance sheets and are highly leveraged. Parent companies may demand an "upstream cash dividend," so the new concern may have to take on more debt.

Buying corporations' spun-off stocks is no longer a no-brainer

Even in their heyday, s spin-offs deserved their r tation as dogs—divisions dragged down the earning their corporate parents wouldn't fetch an attrac price if sold. In fact, found that 25% of the s offs from 1984 to 1988 price declines ranging f 3% to 65%.

Indeed, the knee-jerk r tion to spin-off stock is dump it, and selling pres is heavy in the first months of trading. Shareh ers who got, say, one spin share for 10 shares of the ent company may not wan odd lot (fewer than shares) in a company know little about. Then, t are index mutual funds can invest only in stock the S&P 500. And pension-f managers may dump stocks because most of t issues don't pay dividends

Some analysts recomm treating a spin-off stock li

potato—at first. Prices of- trend down when a spin- is thrown on the market bounce back within six ths. The tricky part is ing the stock back at the That strategy would e worked with Time ner's December, 1989, -off of TV-broadcast com- y BHC Communications, Greiper, "because it was tal value play that snuck the back door of Time ner. No one knew about BHC first closed at 49½, six weeks later it had fall- o 41¾. Two months after , it closed at 48¾.

KFIRE. But with a spin-off has a wider analyst fol- ng and higher acknowl- d growth potential, sell- the stock quickly could fire. Take Burlington thern's 1988 spin-off of lington Resources, the oad company's energy op-

ONCE, SPIN-OFFS BURNED RUBBER...

Spin-off	Parent	Day one...	..and six months later
INTERTAN January, 1987	TANDY	$11.25	$19.75
FISHER SCIENTIFIC March, 1987	HENLEY GROUP	14.50	20.00
BURLINGTON RESOURCES December, 1988	BURLINGTON NORTHERN	31.38	44.88

...BUT NEW ONES ARE STALLED

PROMUS February, 1990	HOLIDAY CORP.	26.88	26.25
HENLEY PROPERTIES January, 1990	HENLEY GROUP	10.25	6.00
AEROVOX February, 1990	COOPER INDUSTRIES	3.50	4.06

DATA: BEAR, STEARNS & CO., BW

erations. "If I sold my stock and bought it back a few months later, I would have sold Burlington at 25 and bought it back at 45," says Arnold Schmeidler, president of investment advisers A. R. Schmeidler & Co., based in New York.

What makes for a good spin-off? Those in businesses that are unlike the parent company's may be more attractive, since analysts won't be familiar with the industry and may undervalue the stock. Greiper considers it another good sign if management stays on and has performance incentives such as stock options.

In this market, Wise thinks defense and real estate spin-offs look intriguing. He says: "Given the way these areas are hated by the market and shunned by investors, we could see some attractive values for long-term, value-oriented investors." Schmeidler, on the other hand, looks for undervalued niche companies in the hazardous-waste, environmental, and natural-gas industries.

Two spin-offs Greiper likes and thinks are undervalued are Vivra, a dialysis-services business, and BHC. But while Greiper still has faith in the long-term value of spin-offs, he is covering his bets. In an upcoming research report, he's unveiling a new strategy vis-à-vis spin-offs: how to sell one short. *Suzanne Woolley*

Education

KING TIME JT FOR FELLOWSHIP

usan Clymer was a fast-rising executive at California Biotechnolo- But she suddenly jumped he corporate ladder at the ntain View (Calif.) compa- o take a scholarly year in n. Now, she spends her interviewing biotech ex- s in government, universi- and industry.

you've ever envied aca- ics their freedom to take aticals, sigh no more. y fellowships are open to e in the business world. course, some mid-career its are for specific profes- s. But a surprising num- welcome applications any sort of executive.

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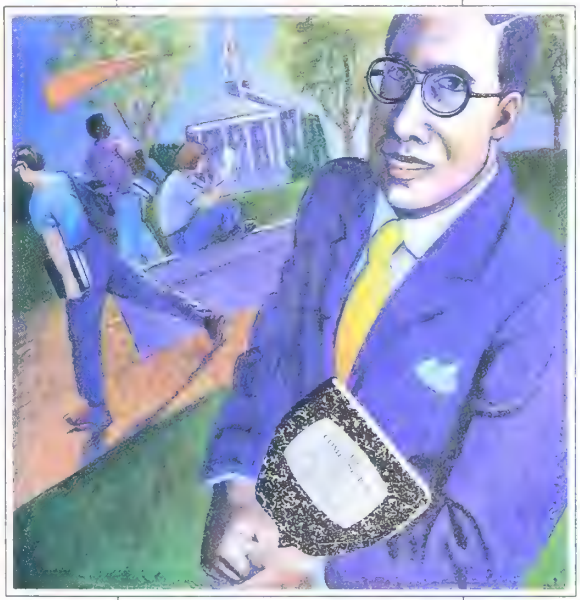
Of course, to get a Fulbright, you can't just blithely apply to study fishing in the Bahamas. You have to tailor the application to the stated needs of individual countries. Projects can be carried out in the field or in the classroom.



Professionals struck by wanderlust should also check out the Luce Scholars program. It sends 18 young (under-30) Americans to work in Asia for a year. The foundation targets those who have had little exposure to Asia.

For example, James O'Conor, a management consultant at Monitor Co. in Cambridge, Mass., had never been out of the U. S. before he got the Luce. While working as a stock analyst for Lucky-Goldstar in Seoul, he got a sense of what it's like to be an outsider. Also, he says, "it really opened my sensitivity toward working with people from different cultures."

Not all such grants send people abroad. Each year, the White House Fellows program selects 11 to 19 fellows from various professions and assigns them to a year either in the White House itself or at an executive branch department or agency. Fellows have a chance to meet with top government officials and work with Cabinet members. In a typical year, there are more than 1,000 who apply.

The White House selection commission is looking for people who are dedicated to serving the community. Being a fellow "doesn't necessarily translate into immediate individual benefits, and those who expect it to would be better off not applying," warns Elaine Chao, a former fellow who, after her stint, left banking and is now Deputy Transportation Secretary.

Persuading your company to let you go may be a bigger hurdle than getting the fellowship. Susan Clymer resigned from Cal Biotech to accept her Fulbright. Still, she's glad she did. Companies are banging on her door, eager to use her knowledge of the Japanese system in arranging joint biotech deals. "It's been a quantum leap in career opportunities," she says. *Peter Hong*

THE CAPRI: MERCURY'S PITCH TO MIATA FANS

Mercury's new Capri compared with Mazda's Miata. After all, both are seductive, sporty rag-tops in the same price category. On the road, the Miata offers more pure, rip-snorting fun. But the Capri carries a dose of practicality that makes it an attractive alternative for the workaday world of commuting, ferrying kids, and buying groceries.

A similar, 1.6-liter Mazda engine powers both cars. But while the Capri feels plenty zippy, it's not quite as quick as the Miata. It has fewer horses, for one thing: 100 compared with 116.

The Italian-styled Capri is also a bigger, heavier car, wedge-shaped and more angular than the curvaceous Miata. With front-wheel drive, as opposed to a roadster's traditional rear-wheel drive, and with softer springs, the Capri has a hard time putting power on the pavement—especially when it comes to aggressive cornering on bumpy roads.

Other than that, the Capri is a joy. The top stows under a small lid, providing a neat, trim appearance even with the roof down. And the cockpit controls are simple and easy to use. Plus, the driver's seat has a thoughtful, if slightly cumbersome, height-adjustment feature.

Where the Capri really shines, though, is in storage space. Unlike the Miata, it has a back seat, complete with shoulder belts. Of course, it's strictly for kids and small adults: Tall folks have no place for their knees—or their heads, if the top is up. Still, the back seat is a great spot for packages or a couple of duffle bags. With the top down, even a 10-speed bike (sans wheels) makes it.

A BACK SEAT AND A REAL TRUNK, TOO: THE 132-HORSEPOWER XR2

NICE PRICE. Best of all, the Capri has an actually usable trunk space. Grocery bags fit standing up, as do bike wheels, and there's room for several pieces of soft luggage. Its convertible top isn't quite as convenient. The Capri's soft top can be doffed or donned in just a minute, but you have to get out to perform the operation, while the Miata's top can be removed from the driver's seat.

The Capri is attractively priced. The base model sells for just $12,943, including delivery. That compares with $14,000 for the lowest-priced Miata. The Capri XR2, with 132 horsepower for some neck-snapping acceleration, weighs in at $15,877. It gets 25 miles to the gallon, slightly less than the base model's 28 miles to the gallon.

Sometimes it's tough to rationalize shelling out much for an overgrown toy. But when practical transportation comes in a package that promises fun—hey, no problem. *David Woo*

Smart Money

WITH WINE FUTURES, YOU CAN ALWAYS SWALLOW THE LOSSES

It was hot and dry in the Bordeaux region of France this summer—just the kind of climatic conditions that can produce a wonderful vintage. And now that it's harvest time, connoisseurs and investors are wondering whether they should lock in prices by buying Bordeaux wine futures.

Futures are contracts that cover the price of a specific number of cases of wine for delivery 18 to 24 months after harvest. Wine merchants offer futures in the spring following the vintage.

BUYING FRENZY. Contracts for 1989 Bordeaux have been incredibly popular. Indeed, there was a buying frenzy after some experts began describing it as the vintage of the century. At Sherry-Lehmann Inc., a New York wine merchant, futures on '89 Château Haut-Brion were first offered last May at $850 a case. Now they're $895.

Of course, in part this reflects the depreciation of the dollar against the franc. Still, there's no doubt that wine futures represent the lowest price, because wine appreciates in price once it's bottled. For example, futures on '82 Château Latour were first offered in the spring of 1983 at $495 a case. The same 12 bottles currently go for $1,679 at retail in New York.

Although futures are available for many wines, investors and oenophiles covet the rich, expensive reds of Bordeaux. Investors often limit themselves to the region's top châteaux, including such stars as Latour, Margaux, Mouton-Rothschild, Haut-Brion, and Cheval Blanc (table).

WHAT A DIFFERENCE A YEAR MAKES

Chateau	Current futures prices 1988	1989
MOUTON-ROTHSCHILD	$650	$950
MARGAUX	650	860
LATOUR	625	850
HAUT-BRION	625	895
CHEVAL BLANC	665	880

DATA: SHERRY-LEHMANN INC

Still, there are risks in wine futures—even for these blue-chip labels. Futures are first offered when the wines are in their infancy, so it's hard to judge whether they will turn out to be first-class. Although you may not lose money, your profits may suffer. For example, a Haut-Brion Grand Cru from 1983, a so-so year, was first offered at $440 a case in 1984; in 1986, the retail price was only $540.

FIVE YEARS. Also, wine investing takes patience. Most experts advise holding on to your wine for at least five years before selling. Even so, it won't be easy to cash in on your investment. Many states prohibit individuals from selling wine without a liquor license. That often means having to employ an auction house.

And what of the 1990 vintage? While many are singing its praises, there's already some dissent. Wine critic Robert Parker Jr., publisher of the *Wine Advocate*, thinks the grapes may be of uneven quality. It may have been *too* hot and dry in Bordeaux. *John Mee*

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Travel

WHERE A SLICE COULD LAND YOU DEEP IN THE JUNGLE

F knows about boom in Japan, e 168 new courses e sprouted in the past two years, and green fees range from $70 to $200. But golf is becoming more serious business throughout Southeast Asia: Formal and challenging, it's one of the best routes to the region's royals and corporate chiefs. In Bangkok, American Chamber of Commerce Executive Director Tom Seale tells newly arrived executives: "If you really want to get plugged into this society, play golf."

U. S. companies with Asian operations, such as 3M and Citibank, are realizing the importance of golf in Asia and are paying lifetime membership fees that can range from $20,000 in Bangkok to $114,000 in Singapore. If your company hasn't coughed up yet, you can play Asian courses on a per-day basis if you have a handicap certificate from your home club.

But don't depend on hotel brochures' promises of access to a club. Call before arriving to prevent your game from being swamped by Japanese on a whirlwind two-day tour. Most places will probably be most welcoming on weekdays.

Any sportsman worth his spikes will relish the contrast between Thailand's finely manicured slopes and the jungle-like setting of courses in the Malaysian highlands, where you can report that you literally played with a bunch of monkeys. Despite the often rugged conditions, however, golf in Asia is a formal affair. Leave the shorts and T-shirts at home. Asians particularly cringe at foul language or displays of temper, even on that seventh sand trap by the lagoon filled with fever-carrying mosquitoes. That said, here's where you can have fun and post a good score for your company at the same time:

■ **The Philippines.** The designs of the courses may not be the best, but they are among the more interesting and affordable in Asia. Executives might avoid the military-run Villamor Course, the choice of Japanese holiday golfers, in favor of El Club Intramuros (632-47-84-70). With fees of $9 to $13 a day, it's the shortest course in Manila, perfect for a morning round. Watch out for the "Marcos gimme," named after the late President Marcos: This is a ball that can be claimed as in the hole if it falls anywhere within 100 feet of it. For more tips, contact the Philippines Golf Assn. in Manila. Sharp Travel Services (632-81-70-169) specializes in golf tours.

■ **Malaysia.** Nowhere will the golfer feel closer to the jungle than here. The Hyatt Hotel offers guests access to the brutal new Cobra course designed by Californian Ronald Fream at the Saujana Golf & Country Club (603 746-1188). Across the narrow straits with Singapore, the Royal Johor Country Club (607-22-88-82) is the place to be, although memberships are closely held and rules fit for royals are strictly enforced. Wear shoes with spiked soles—no rubber studs.

In Penang, home to many American electronics ventures, there's Bukit Jambul Golf Club (604-84-28-13). Dotted with rubber and cashew trees, this new, rocky course offers short, exciting play.

■ **Singapore.** It's tiny, but it has 11 clubs and 17 courses. Given two weeks' notice, the Singapore Tourist Promotion Board (65-339-6622) can arrange access to the Tanha Merah (65-542-3040), a popular club near Changi Airport. Also highly regarded: the Sentosa's Tanjong Course (65-275-0022). As your ball flies over the Strait of Malacca at sunset, the view is stunning.

■ **Indonesia.** A favorite of Vice-President Sudharmono, the Pondok Indah Gc Country Club (6221-769 is less snooty than Jak newer and flashier co At 630 yards from the tee, the ninth hole is o the longest in the w Down in Bandung, a pc conference town, there' Dago Golf Course. It's a py little course, but watc for the wandering chicke

■ **Thailand.** The hottest spot in Asia, its green range from $12 to Breathtaking backgro abound, from temples limestone cliffs at the Hua Hin (032-51-24-75), land's oldest cours the surrounding track at the down Royal Bangkok Sp Club (251-0181). But the best courses their drawbacks. At Yai, about 50 miles o Bangkok, you could the ball in a steaming phant dropping.

If you come al you'll be teamed up others—a great wa make contacts, note mon Edmonds, who World Splendour days (662 271-0611 Bangkok golf tour c nizer. But bone up Thai customs. A pat the back is the bigges sult you can give partner, short of cros your legs. And take a w along, since the locals lov bet: Deputy Prime Mini Pramual Sabhavasu wage million baht ($160,000) game. But despite all don't take it too seriously. golf in Thailand, as in al Asia, the operative words "sabai" and "sanuk,"— is, "laid-back" and "fu

Dinah Lee, Mark Ti

Thailand is one of Southeast Asia's hottest spots for golf, with exotic tropical surroundings and modest green fees

Worth Noting

■ **ALL ABOARD.** A new European East Pass, modeled on the West's popular Eurailpass, becomes effective on Jan. 1. Good in Austria, Czechoslovakia, Hungary, and Poland, it allows five days of first-class train travel in any 15-day period for $160, or 10 days of ri within a month for $260. tails: 800 848-7245.

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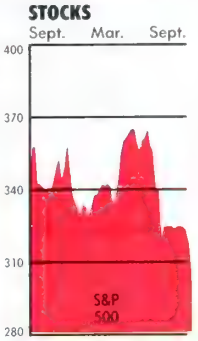
nvestment Figures of the Week

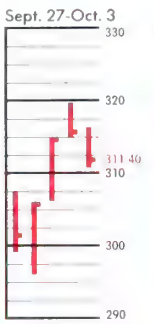
MENTARY

narkets ended the worst
er since 1987, and October
ff to a good start. Oil prices
ed down from $40 per bar-
ush and congressional lead-
obbled together a deficit re-
on package. Bonds rallied,
yields dropping from 9.1%
9%. That gave U.S. stocks a
st rebound. In Japan, the
nment announced measures
ore up the ailing stock mar-
n response, the Nikkei
ed 2,677 points, or 13.2%,
ct. 2., its biggest gain ever.

STOCKS

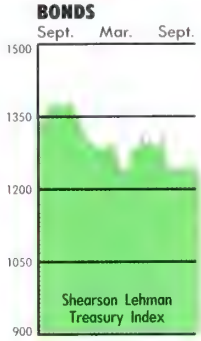


52-week change **–12.8%**



1-week change **+2.1%**

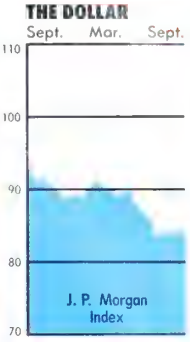
BONDS



52-week change **–6.0%**

1-week change **+1.4%**

THE DOLLAR



52-week change **–9.5%**

1-week change **–1.0%**

ARKET ANALYSIS

STOCKS	Latest	% change Week	% change 52-week
JONES INDUSTRIALS	2489.4	1.2	–10.2
COMPANIES (Russell 1000)	160.8	2.1	–14.7
LL COMPANIES (Russell 2000)	128.1	–0.5	–28.6
COMPANIES (Russell 3000)	170.1	1.9	–15.6

IGN STOCKS	Latest	% change (local currency) Week	52-week
ION (FINANCIAL TIMES 100)	2087.0	4.4	–9.7
O (NIKKEI INDEX)	22,849.4	1.1	–36.4
NTO (TSE COMPOSITE)	3179.5	–0.1	–20.9

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	7.4%	7.6%	8.1%
30-YEAR TREASURY BOND YIELD	8.9%	9.1%	8.2%
S&P 500 DIVIDEND YIELD	3.2%	3.8%	2.9%
S&P 500 PRICE/EARNINGS RATIO	13.5	14.3	14.9

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 26-week moving average	342.3	343.5	Negative
Stocks above 26-week moving average	15.1%	13.5%	Positive
Speculative sentiment: Put/call ratio	0.53	0.61	Positive
Insider sentiment: Vickers sell/buy ratio	0.72	0.73	Positive

DUSTRY GROUPS

BRIDGE INFORMATION SYSTEMS INC.

-WEEK LEADERS	% change 4-week	52-week	Strongest stock in group	% change 4-week	52-week	Price
ALTH CARE SERVICES	16.8	19.3	MANOR CARE	17.2	–6.0	13 5/8
GIONAL TELEPHONE COMPANIES	10.3	–2.1	AMERITECH	17.0	2.4	64 3/8
AL	8.8	5.3	PITTSTON	12.5	4.9	21 3/8
BACCO	6.2	12.9	AMERICAN BRANDS	7.8	–5.6	72 1/4
TURAL GAS DISTRIBUTION	5.4	–2.2	ONEOK	19.2	1.6	15 1/2

-WEEK LAGGARDS	% change 4-week	52-week	Weakest stock in group	% change 4-week	52-week	Price
TELS AND MOTELS	–25.2	–71.6	MARRIOTT	–34.7	–68.5	11 3/4
PAREL MANUFACTURING	–16.7	–32.6	V. F.	–25.9	–58.8	14 5/8
RSONAL LOANS	–16.5	–43.2	HOUSEHOLD INTERNATIONAL	–21.7	–53.3	27 1/8
MEBUILDING	–16.1	–54.0	U. S. HOME	–58.3	–72.2	5/16
NEY CENTER BANKS	–15.5	–50.8	CHASE MANHATTAN	–33.1	–71.7	11 7/8

UTUAL FUNDS

MORNINGSTAR INC.

ERS

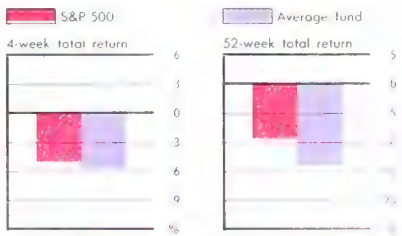
week total return	%
B TELECOMMUNICATIONS INCOME	8.1
EYFUS CAPITAL VALUE	3.5
TON VANCE TOTAL RETURN	2.3

eek total return	%
UITY STRATEGIES	56.1
DELITY SELECT ENERGY SERVICE	38.3
DELITY SELECT BIOTECHNOLOGY	25.8

LAGGARDS

Four-week total return	%
G. T. JAPAN GROWTH	–20.0
BULL & BEAR SPECIAL EQUITIES	–18.8
JAPAN	–17.5

52-week total return	%
PRUDENT SPECULATOR LEVERAGED	–51.4
STEADMAN OCEANOGRAPHIC TECHNOLOGY	–47.8
WASHINGTON AREA GROWTH	–44.0



ELATIVE PORTFOLIOS

DATA RESOURCES INC.

ir amounts
esent the present
e of $10,000
sted one year
in each portfolio

ntages indicate
day total returns

Money market fund	Gold	Treasury bonds	U. S. stocks	Foreign stocks
$10,697	**$10,583**	**$10,222**	**$8,902**	**$8,227**
+0.14%	–3.94%	+3.41%	+2.25%	+2.15%

ta on this page are as of market close Wednesday, Oct. 3, 1990, unless otherwise indicated. Oct. 2. Mutual fund returns are as of Sept. 28. Relative portfolios are valued as of Oct. 2. A more
y groups include S&P 500 companies only; performance and share prices are as of market close detailed explanation of this page is available on request

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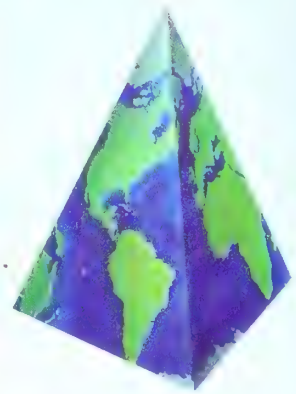

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GOOD WORK ON THE BUDGET—BUT

President Bush and congressional negotiators deserve cheers for the budget agreement reached on Sept. 30. One huzzah is for turning their backs on the hocus-pocus and mirrors that surrounded similar efforts in the past. Second, they deserve a cheer for finally coming to terms with the nation's need for an energy tax.

Although it falls well short of the promised $50 billion reduction in the fiscal 1991 deficit, the total saving of $500 billion over five years and the relative freedom from the sort of stunts and accounting tricks that have marred past budget pacts are praiseworthy. Congress should get on with the job of translating the agreement into law as fast as it can prudently do so.

The budget package contains a series of consumption taxes that together figure to raise $10 billion a year after they kick in on Jan. 1. The largest of these, an additional 12¢ in federal excise taxes on each gallon of gasoline sold, is a serious step toward discouraging wasteful energy consumption as well as being a revenue-raiser. The so-called sin taxes on alcoholic beverages and cigarettes also combine laudable social purpose with additional cash for federal coffers. And while the 10% excise tax on luxury items such as furs, yachts, and limousines probably won't raise all that much money, it has a Puritan quality about it that is consistent with a country caught up in an international showdown, with scarcely enough money to pay for it.

But there is room for significant improvement within the broad outlines of the agreement. A few simple steps would greatly enhance the fairness and economic efficiency of some of its tax and budget proposals.

First off, lawmakers should scrap the overly generous 25% deduction for investment in small business and some related tax breaks for small companies. The main beneficiaries of this one are likely to be tax lawyers and tax-shelter promoters. And rather than spurring innovative, high-tech companies, the tax break could end up mainly benefiting publicly owned fast-food franchises. For the same amount of foregone revenue or less, Congress could provide for indexation of capital gains so that investors would no longer be taxed on illusory inflationary profits.

The other prime candidate for the scrap heap is the new limitation on itemized deductions for taxpayers earning more than 100,000 a year. The proposal, as drafted, adds a mind-numbing layer of complexity to the tax code. And because the $100,000 limitation applies equally to joint and single filers, it exacerbates the unfair and unwise "marriage penalty" in tax policy.

The effect of this provision is to raise the marginal rate for the highest-income taxpayers by about a percentage point, even though lawmakers can claim not to have raised rates. There's no reason to indulge this inane fiction. Why not simply raise the rate one point and be done with it? It would cost anyone an extra penny and should earn the gratitude of anyone who has to wade through a Form 1040.

Finally, while the budgeteers decided correctly that some of the benefits to the elderly should be trimmed, the way they chose to do it is unconscionable. Over the next five years, $60 billion is to come out of the medicare program, half in higher premiums and copayments, half from reduced fees to providers. It makes no sense to heap the burden on the ailing old, regardless of income. It would be vastly more fair to shift the burden to the better-off elderly by increasing the share of Social Security benefits subject to the income tax.

IT'S TIME FOR GREENSPAN TO KEEP HIS PLEDGE

It is urgent that the Fed ease—and ease fast. Federal Reserve Board Chairman Alan Greenspan promised an easing in the wake of a credible budget package. Such a budget deal is apparently in place and with some changes is likely to go through both houses. This is a significant, $500 billion package that is the first real effort in a decade to bring the deficit under control. The bond market has reacted positively, signaling that it regards the package as viable. Now is the time for the Fed to honor its promise.

There is a timing problem, because some of the new taxes and spending cuts will begin to depress the economy well before monetary policy—which always works with a lag—can kick in to offset them. But the data are beginning to fit Greenspan's rigorous definition of a recession: what he has called a "cumulative unwinding" of economic activity. The data for August were uniformly negative, and we are beginning to get numbers for September that are equally downbeat. Another reason the Fed needs to act is to prevent a recession from becoming a drawn-out affair. The sooner the Fed loosens credit by cutting interest rates, the quicker the pain of this downturn will be over.

Chairman Greenspan says he is worried about inflation because the underlying trend of prices (outside food and energy) is upward. This concern seems unwarranted because the weakness of the economy is certain to slow down inflation next year. The Fed is worrying about today's inflation rate when it ought to be worrying instead about tomorrow's economy.

In the past year, the economy has been weak but growing. But what happens to a Sears or a Chase if we have two quarters of recession? What happens to corporate profits? The failure of the Fed to ease right now, at least to mitigate the effects of the recession, could cause serious problems in some of the fragile sectors of the economy.

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THE ENTIRE COUNTRY WOULD SUFFER.

Consider this.

Were a major earthquake to strike a city like Los Angeles, St. Louis or New York, the entire country would pay the price. And the impact would extend far beyond the deaths, personal injury and property damage in the immediate quake area.

Start with disruption of critical energy and communication lines, food distribution and transportation. Add the problems in the financial markets that would inevitably arise as the insurance industry mobilized the funds to pay massive claims.

Worse yet, the insurance industry, drained of cash, might be unable to raise new capital to meet ongoing obligations and offer new coverages in the future.

As a nation, we can't afford to let this happen. Yet it easily could.

WE NEED TO BE BETTER PREPARED.

Destructive earthquakes will continue to occur throughout the world. The only real uncertainties are when and where.

Minimizing their effects calls for some fresh thinking. That's where The Earthquake Project comes in.

The Earthquake Project is supported by companies that have been working individually and through trade groups for several years to lay the groundwork for legislation to address this problem. Our goal

ederal earthquake
ital for all Americans.

is to protect the integrity of our economy in the event of a major quake.

And to make earthquake insurance available and affordable to every American homeowner and business.

A GOVERNMENT-INDUSTRY PARTNERSHIP APPROACH.

The proposed legislation would create a federal earthquake insurance program based on a government-industry partnership. The program would increase the number of homeowners purchasing insurance, thereby spreading the cost of risk more broadly. As a result, rates would be generally lower than they are today and coverage would be more affordable.

Another feature of the program would be the creation of a federal earthquake reinsurance corporation. Commercial insurance companies could purchase additional reinsurance from this corporation to supplement their existing capacity. This extra layer of protection would come into play in the event insurance industry earthquake losses exceeded some predetermined large figure–say $8 billion.

IT WOULD PROVIDE THE RESOURCES TO REBUILD OUR ECONOMY.

With such a program in place, compensation could be available to every earthquake victim suffering property losses. Moreover, the reinsurance aspect of the plan would assist the insurance industry in performing its role of efficiently allocating the resources needed for rapid recovery and for rebuilding our economy.

As we see it, a federal earthquake insurance program, undertaken with the participation of government, business and American homeowners, is no longer a matter of choice.

It's a necessity.

WHY IS AIG RUNNING ADS LIKE THIS?

AIG (American International Group) is the nation's largest underwriter of commercial and industrial insurance, and the leading U.S.-based international insurance and financial services organization.

The nature of our business means we deal every day with issues ranging from natural disasters to political risk. Not to mention other issues affecting the future of the world economy.

AIG is a founding member of, and participant in, The Earthquake Project. We believe the American public should understand the probable extent of devastation from a major earthquake. And the ways we as a nation can prepare to deal with it.

Let your elected officials know what you think of this proposal. Or if you'd like to express your views to AIG, write Mr. M.R. Greenberg, Chairman, AIG, 70 Pine Street, New York, NY 10270.

AIG World leaders in insurance and financial services.

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ENTRIES IN THE CORPORATE ELITE DIRECTORY ARE ARRANGED ALPHABETICALLY BY COMPANY NAME. TO HELP YOU FIND A PARTICULAR EXECUTIVE IN THE LISTING, THIS INDEX IS ARRANGED BY INDIVIDUAL NAME, ALSO IN ALPHABETICAL ORDER. AND TURN TO PAGE 292 FOR NOTES ON HOW TO READ THE CEO PROFILES

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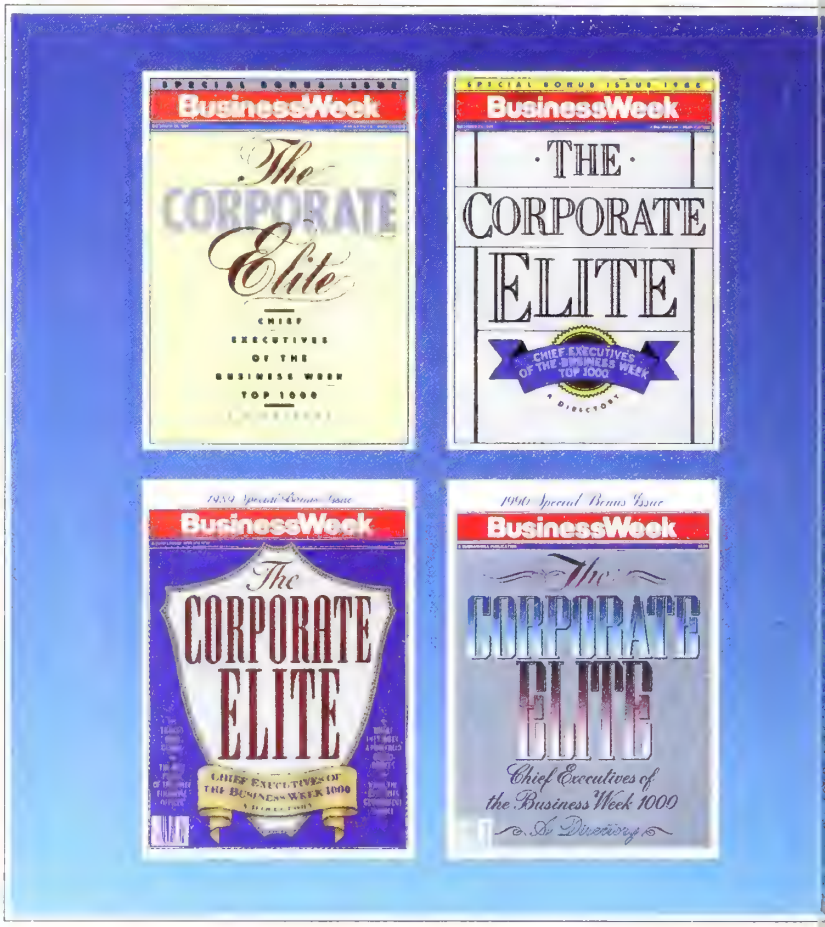

This is the fourth annual Corporate Elite issue, a special subscribers' bonus that focuses on the chief executives of America's 1,000 largest public corporations, ranked by market value. These high-powered bosses call the shots at companies with collective annual sales of $3.5 trillion and profits of $186 billion. The companies, and therefore their CEOs, are chosen in a way that assures dynamism: O those companies whose performa and potential have earned then high market value make it.

The BUSINESS WEEK 1000 issue, p lished in the spring, is a treas trove of numbers. This issue i trove of people, with capsule prof of the 986 men (several run m than one company) and two wo who run the top companies. T

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year's Elite includes, for the first time, a black CEO, WPL Holdings' Erroll Davis.

The directory that begins on page 55 provides a quick portrait of each CEO. You'll find such basic information as date of birth, education, and salary, as well as glimpses into their management style, strategic challenges, and pastimes. This year, the directory includes expanded treatment of 24 executives of special interest.

Before you turn to the directory, however, spend some time absorbing the wealth of fascinating information in the next 40-odd pages. In this year's cover story (page 8), Issue Editor Eph Lewis and Associate Editor Bob Mims provide an extraordinary look at the demographics of the executive suite, based on a rich data base collected by BUSINESS WEEK and Standard & Poor's Compustat Services.

There's more: Washington correspondent Amy Borrus, with our overseas bureaus, tells us about executives who jump from business to the diplomatic ranks (page 18). Associate Picture Editor Scott Myln and Staff Editor Bruce Hager, together with our bureaus, bring you a handsome picture portfolio and story about the large crop of new CEOs (page 22). Senior Writer Judy Dobrzynski, working with several domestic bureaus and Deputy Photo Editor Sue Bloom, provides an intimate look at what some of these powerful business people do in their off-hours (page 39).

Preparing this issue is a massive job. Editors Lewis and Mims, who teamed up on the first three Elite issues, provided much of the inspiration—and perspiration. Staff Editor Fred Jespersen worked closely with more than 70 correspondents in the field and New York editors whose insightful reporting is the heart and soul of this project.

The editorial operations staff, headed by Claire Worley, efficiently assembled the whole complex package, and Design Editor Molly Leach and Art Director Louise White made it all look beautiful. I think you will find that these editors and the entire issue staff have brought you the best Corporate Elite issue yet.

Stephen B. Shepard

Editor-in-chief

If you're traveling through Tennessee, won't you stop by our distillery? We'd be pleased to show you around.

WE RARELY HURRY here at Jack Daniel's, especially when we're putting our Tennessee Whiskey to rest.

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A

A COMPOSITE PICTURE OF THE CHIEFS OF THE 1000 MOST VALUABLE U. S COMPANIES, COMPOSED OF REAMS OF FACTS, STATISTICS, AND TRIVIA

Will Mr. Smith please raise his hand. Congratulations! You're the typical chief executive of a pretty big company. This year, BUSINESS WEEK's Corporate Elite Special Issue lists no fewer than 16 Smiths—way ahead of the Joneses (only three). And if you yell, "Hey, John," even more heads turn—no fewer than 85 of them.

We know lots of other things about our hypothetical, but typical, John Smith (curiously, there's no actual John Smith on the list). For one thing, he's quite likely to have played a varsity sport in college. And if he did, it probably was football. Now, of course, he plays golf, or maybe tennis. He also likes to sail.

He's a reasonable bet to have attended an Ivy League university, where he met a lot of fellows very much like him who also turned out to be CEOs in the making. It's true, of course, that he may have attended a state college or university. If so, the chances are that he's the only man of his generation at the college who made it all the way to the top of the corporate heap.

What did he study? Something having to do

POR

with business—and his degree is often a Bachelor of Science with a business-related concentration. And he probably went on to graduate school to take his MBA, or else to law school. In either case, the choice was likely to have been Harvard.

Our man (there's only two women this year: Washington Post's Kay Graham and Golden West Financial's Marion Sandler, who alternates on our list with her spouse and co-CEO) was almost certainly born in New York, or maybe Pennsylvania, or Illinois. He's held his job for about eight years, and he's been with his company for most of his career. Big corporations being what they are, he's probably moved

TRAIT OF THE BOSS

By Robert Mims and Ephraim Lewis

around a lot in the 20-odd years that he's been employed by his company, but he's unlikely to have pulled a foreign assignment. In any event, he now probably works near where he started out. His title, besides CEO, is chairman, and he came up through the finance or marketing departments.

Smith is almost certainly white (only one black man has ever appeared on the list, and he's on this year—Erroll Davis of WPL Holdings). Smith is married, he's a Protestant, and the Smiths have three children, pretty well grown, since he, at least, is well into his fifties. It's unlikely that he's ever been divorced, although people's reticence being what it is, it's kind of hard to tell. Only a few responded on the questionnaire.

The family is comfortably well off, since he takes home a salary and bonus well into the high six figures and he owns a tidy bundle of company stock. He served in the military—probably in the Army—as an officer and a gentleman.

We know lots more about Smith, his colleagues and peers. To learn it, please read on.

ILLUSTRATIONS BY JOSE CRUZ

YOUNG & OLD

NOW IT CAN BE TOLD: MICROSOFT'S BILL GATES IS NO LONGER THE YOUNGEST BRIGHT YOUNG MAN. IN FACT, AT 34, HE'S GETTING A MITE LONG IN THE TOOTH. COMCAST'S BRIAN ROBERTS AT 31 IS THE NEW KING OF THE SANDBOX; CABLETRON'S STUART LEVINE AND HELMERICH & PAYNE'S HANS HELMERICH TIE FOR SECOND AT 32. GATES IS FOURTH, ALONG WITH OGDEN PROJECTS' DAVE SOKOL. THE TOP FIVE IN THE YOUTH BRIGADE ARE ROUNDED OUT BY SUN MICROSYSTEMS' SCOTT MCNEALY (35).

AT THE OTHER END, OCCIDENTAL'S ARMAND HAMMER IS STILL CHAMP AT 92, THOUGH PETRIE STORES' MILTON PETRIE AT 88 ISN'T FAR BEHIND HIM. ALSO OCTOGENARIANS ARE ASSOCIATED COMMUNICATIONS' JACK BERKMAN, WHO'S 85, AND PARK COMMUNICATIONS' ROY PARK, WHO'S JUST TURNED 80.

ONLY A CERTAIN KIND OF GUY STAYS AND STAYS, BY THE WAY—THE KIND WHO OWNS A BIG PIECE OF THE COMPANY. OF THE 20 CHIEFS 75 OR OLDER, ONLY FOUR ARE NEITHER FOUNDERS NOR INHERITORS OF A FAMILY BUSINESS: MCA'S WASSERMAN, SEQUA'S ALEXANDER, PETROLITE'S BROWN, ST. JOE PAPER'S BELIN.

ARE YOU FROM BIG O?

Not likely. As the biggest contingent of CEOs, 129, hails from the state of New York, although that's down from last year's 136. Second is Pennsylvania, with 75, followed by Illinois (69), and Ohio (60). Texas ranks only sixth, with 42. California, the biggest state in the Union, ranks only 10th, with 30 native sons. In fact, the Sun Belt states hardly place at all, a function of the CEOs' age. In the 1930s, when most were born, the Northeast and Midwest dominated.

As for native cities New York is far and away the most important, with 58. Add Brooklyn and the Bronx, whose natives tend to think of themselves as citizens of separate municipalities, and the total is 82, two-thirds of the state total. Chicago is the second city, with 38. West Coast metropolises hardly rank at all.

It is by now well-known that Vernon, Tex., is, in per-capita terms, the cradle of chief executives, with three (American Brands' Alley, GTE's Johnson, Ocean Drilling's Watkins). But there's more: Within a 100-mile radius of this town deep in sparsely settled *Last Picture Show-Texasville* country on the Oklahoma border, another nine CEOs were born, including the chiefs of Tandem Computer, Tandy, Rowan, Questar, Thermo Instruments, and Texas Utilities. We speculate that it might be something in the water, if there were any.

A small contingent of CEOs, 63, are foreign born, about the same as last year—another small blow to globalization. Among them are 11 Englishmen and two Scots. Five were born in Africa, including one in what is now Zimbabwe (Timothy Haddon of Amax Gold), and one in Sumatra (Leggett & Platt's Harry Cornell).

WHAT'S IN A NAME

Besides Smith (16, plus a Smithburg), the most popular family names are Johnson (nine, if you include one Johnstone) and Miller (eight). Williams is runner-up, with five. Names to ponder: Brown Group's Bridgewater was a naval lieutenant; Intel's Grove works on Bowers Ave.

More than 70 CEOs still tack Junior to the ends of the names, and three use a Senior. We boast 16 three-sticks, including American Express' Jim Robinson. Only four flaunt two sticks, and we have only one IV (BB&T Financial's John Allison).

Call him "Mack." There are 34 Mc's, plus three Mac's. There are also 11 O's, including four O'Briens. Not a colorful palette here: five Browns, two Blacks, one White, two Greens.

We count nine CEOs who use only initials as first names; 55 use an initial (J leads the list) plus a middle name. As for full first names, Robert and William tie for second after John. One of the more resounding monikers: A. G. Edwards' Benjamin Franklin Edwards III.

CLASS ACTS

Quite a few CEOs go back a long way together. Polaroid's Mac Booth, Primerica's Sandy Weill, and Union Carbide's Robert Kennedy are Cornell '55. And Emerson Electric's Charles Knight, Florida Power's James Broadhead, and Phelps Dodge's Douglas Yearley are Class of '58. Bill Ruckelshaus of Browning-Ferris and Norman Augustine of Martin Marietta were classmates at Princeton (Class of '57), while Berkshire Hathaway's Warren Buffett and Warner-Lambert's Joe Williams were ditto at U. of Nebraska (Class of '50).

George Bush, the most celebrated member of Yale's Class of '48, has several contemporaries: Westvaco's John Luke and Bristol-Myers Squibb's Dick Gelb, who, like the President, took an economics degree. Weyerhaeuser's George Weyerhaeuser was a class behind.

A MATTER OF DEGREE

Well, they're an educated bunch, alright. Almost everyone (916) took an

undergraduate degree of some kind, and most of the rest (55) attended college at least for awhile. Only a tiny handful, 29 CEOs, skipped higher learning altogether, and most of them, though not all, are over 60, like Amerada Hess' Leon Hess.

The undergraduate degrees of those who took them tend to be highly focused. More than half, for example, were Bachelor of Science, the majority of them in business or related fields. Moreover, a large proportion of the 239 Bachelor of Arts degrees (plus 92 ABs) were business-related.

A scattering, however, were liberal arts majors: 31 in history; 12 in literature. BankAmerica's Richard Rosenberg took his in journalism. Provident Life's Winston Walker studied Russian, while Capital Holding's Irving Bailey majored in French, and GE's Jack Welch holds a PhD in chemical engineering.

The list also harbors a hardy band of the super-educated. No fewer than 44 earned two graduate degrees, while three men earned three degrees each. Tele-Communications' John Malone took a master's and a doctorate at Johns Hopkins, plus a master's at NYU. Figgie International's Harry Figgie earned a graduate engineering degree at Case Tech, an MBA at Harvard, and a law degree at Cleveland Marshall Law. And George Hatsopoulos of Thermo Electron won three graduate degrees at MIT.

But the champion degree hound is Renso Caporali of Grumman, a quadruple threat, as befits one of the designers of the redoubtable F-14 fighter. He earned a master's in mechanical engineering at Clarkson and three advanced degrees, including a PhD, at Princeton.

COMPANY MEN

Elsewhere in this issue (page 22) is an extensive report on the current crop of new chief executives, but here's a summary of the key statistics. While U. S. companies are far from life-time havens for dedicated salarymen, they still cherish the long-term career employee. The average service at his company by a CEO is 22.5 years. But that's less than last year, when the average exceeded 23 years. Some 20 executives have been with their companies less than a year, and another 36 three years or less.

Among recently appointed CEOs, the average tenure at their companies is a bit less than 17 years.

The champion for long service is Petrie Stores' Milton Petrie, with 58 years. But of course, he founded the company. Close behind is another man with his name over the headquarters door: Block Drug's Leonard Block, with 57 years. He's been the boss for 27 of them. In all, 16 CEOs have been employed for at least a half century, and most of them share their names with the company: Grace of Grace, Dillard of Dillard, Coors of Coors, Smucker of Smucker, and so on.

As for tenure in the CEO's chair, runners up to Petrie are William Dillard of Dillard Department Stores, with 52 years, and Jack Berkman of Associated Communications, with an even 50. Six more have notched at least 40 years in the job.

SCHOOL TIES

AS USUAL, YOUR CHANCES OF EVENTUALLY SUCCEEDING TO A CORPORATION'S TOP JOB ARE BETTER IF YOU MANAGE TO GET INTO YALE, WHICH LEADS THE LIST WITH 37 SONS, FOLLOWED BY PRINCETON (31), AND HARVARD (29). THE IVY LEAGUE AS A GROUP CLAIMS 159 CEOS, WHILE THE BIG TEN HAS 93. AN EVEN DOZEN CAME FROM SERVICE SCHOOLS, INCLUDING FOUR FROM ANNAPOLIS. IN ALL, THE CEOS ATTENDED 312 COLLEGES. OH, YES. HANCOCK FABRICS' JARVIS ATTENDED THE KENTUCKY SCHOOL OF MORTUARY SCIENCE.

MORE THAN HALF THE CEOS PURSUED SOME GRADUATE EDUCATION, AND 466 TOOK A GRADUATE DEGREE. AS USUAL, HARVARD (B-SCHOOL AND LAW SCHOOL) LEADS WITH 98, FOLLOWED BY STANFORD WITH 30. MIT IS THIRD WITH 21.

CLOSE TO HOME

While executives on the way up are notoriously peripatetic, and quite a few spent time abroad (box, page 12), by the time they reach CEOdom, they tend to settle down, and cling to their rock. More than a third work in the state in which they were born. More than one-quarter in the state in which they attended college.

What does move, however, is the corporate headquarters. Some of the migrations have been well-publicized, but the figures are striking nonetheless. In 1987, the first year of the Corporate Elite, New York was headquarters to 131 of the BUSINESS WEEK 1000 companies. This year, the total dropped to 112. Connecticut was another big loser (from 45 to 36) and so was Massachusetts (from 47 to 35). New Jersey lost seven headquarters (to 35). Thus California (with 114) has narrowly edged New York out of first place, even though it suffered a net loss of two headquarters. The big gainer was Texas, now in third place with 77 headquarters.

LIVING WELL

It's nice to report that the money keeps getting better and better for CEOs, through good times and bad. In 1989, which is covered in this year's survey, the average salary for the 1,000 chiefs was a robust $841,000, up a modest 7% from 1988's $787,000. That increase lagged the average

THE PATH OF EMPIRE

ARE WE READY FOR THE GLOBAL STATELESS CORPORATION? MAYBE. ONLY 10% OF CEOS REPORT A TOUR OF OVERSEAS DUTY IN THEIR CAREERS. EVEN AFTER YOU WEED OUT UTILITIES, REGIONAL BANKS, INSURANCE COMPANIES, AND RETAILERS—THE INDUSTRIES THAT WERE FIRMLY ANCHORED TO THE U. S. IN THE YEARS WHEN THESE EXECUTIVES WERE COMING UP, THE DEPTH OF EXPERIENCE IS THIN, AND IF YOU EXCLUDE THE DOZEN WHO RECORD SERVICE IN CANADA, IT'S EVEN THINNER.

AS FOR THOSE WHO DID SERVE A TOUR OF DUTY IN A FOREIGN COUNTRY, 18 WENT TO BRITAIN, NINE TO GERMANY, SEVEN EACH TO FRANCE AND JAPAN. IN ALL, 59 REPORT SERVICE IN EUROPE, 20 IN ASIA, 13 IN SOUTH AMERICA. ONLY FOUR SAY THEY SERVED IN AUSTRALIA, SIX IN AFRICA, SEVEN IN THE MIDDLE EAST. JOSEPH WILLIAMS OF WILLIAMS COS. WAS IN IRAN; ROMEO VENTRES OF BORDEN IN IRAQ. WORTH A DETOUR?

growth in sales for the 1,000 companies, which rose 8% to an average $3.6 billion. On the other hand, any raise at all looks munificent, considering that average profits for the year declined 5%, while the average market value tumbled 11%.

Readers who follow BUSINESS WEEK's annual Survey of Executive Compensation please note that these figures differ from those, since long-term bonuses and stock awards are here excluded and there included.

By the Corporate Elite's calculations, Reebok's boss, Paul Fireman, continued his unbroken string of fat paydays, notching $14.6 million in salary and short-term bonuses. That's up substantially from 1988's $11.4 million, eked out in not such a hot year for sneaker earnings. Still, the raise didn't bring Fireman back to the real gravy year of 1987, which was worth $15.4 million.

Chris-Craft's Herb Siegel also pulled down a nice sum: $13.7 million. And Disney's Michael Eisner very nearly entered the magic circle of $10 million earners, with a paycheck of $9.6 million, up nicely from 1988's $7.5 million.

In all, seven other CEOs earned $4 million or more, including Reliance Group's Saul Steinberg, Morgan Stanley's Parker Gilbert, L. A. Gear's Robert Greenberg, Charles Lazarus of Toys 'R' Us, Time Warner's Steve Ross, Bear Stearns' Alan Greenberg, and Paramount's Marty Davis.

In addition, five CEOs, including Tyson Foods' Donald Tyson, brought home between $3 million and $4 million. And another 17, including GE's Jack Welch, were paid between $2 million and $3 million. In all, one-quarter of the CEOs on the list earned at least $1 million. In 1988, 218 chiefs made that much.

At the other end of the pay scale, 25 CEOs earned less than $200,000; last year, nearly twice as many were (relatively) modest earners. Low man this year, at $80,000, is Walter McNerney, head of American Health Properties, a REIT.

Warren Buffett of Berkshire Hathaway still plods along with his annual $100,000, seemingly unable to cajole a raise. Good thing he's a man of a philosophical turn of mind.

NEST EGGS

Most CEOs are professional managers who own only modest amounts of stock in their own companies. But nearly everyone has something. Those with few or no shares are likely to be newcomers to a company who haven't had time to exercise their stock options (and whose options these days are probably under water anyway), or who work in industries such as banking or utilities whose officers traditionally are not major stockholders.

The median direct share ownership is 60,000, up from 55,000 in last year's survey. And at recent prices, those shares were worth about $1.8 million, on an average share price of $30 and change. That, by the way, excludes Warren Buffett's Berkshire Hathaway, whose lofty stock price raises the average to about $36 a share.

For a substantial number of our CEOs, of course, a couple of mill in share value is virtually tip money. Buffett, of course, comes first. At recent prices, his direct holdings in his own company were worth something over $3 billion. Naturally, he has very little company in the category of share billionaires—just two: Micro-

RAH! RAH! RAH!

CEOs always were competitive, it seems, since 18% claim to have played a varsity sport in college. The largest contingent played football, including AT&T's Allen at Wabash. Some 34 claim basketball, including First Chicago's Sullivan at Columbia.

Baseball claimed 30 adherents, including Loew's Bob Tisch. Tennis (16), golf (15), track (12), and hockey (10) also got play. There were seven wrestlers, including Abboud of Harvard and First City Bancorp. Ted Turner was a yachtsman at Brown, while Holnam's von Wyss was an orienteerer in Switzerland. Fittingly, Nike's Phil Knight ran track at Oregon.

soft's Gates ($2.5 billion) and The Limited's Leslie Wexner ($1.7 billion).

But several other tycoons come close, with shareholdings in their own companies worth at least a half-billion dollars: Loew's Bob Tisch ($974 million), Turner Broadcasting's Turner ($675 million), Mitchell Energy's Mitchell ($612 million), Petrie Stores' Milton Petrie ($574 million), and FlightSafety's Ueltschi ($548 million). In all, 43 CEOs are direct owners of shares in their own companies worth, at recent prices, at least $100 million. Nice work if you can get it.

POOH BAHS

In Gilbert and Sullivan's *The Mikado*, Pooh Bah is an exalted official who holds so many titles that he manages to unite in his person most of the functions of government. The Corporate Elite list has quite a few of these multiple threats. Nearly half the list, adds the title of chairman to that of CEO. Another quarter are presidents, and 235—27%—are all three: chairman, president, and CEO. One is secretary of his corporation.

Four executives are president, CEO, and chief operating officer, and two add chairman, for a grand total of four titles. But the 1990 Pooh Bah award goes to Century Communications' Leonard Tow, who is chairman, president, CEO, COO, and CFO. Oh, yes. He's also chairman of Citizens Utilities. If you want something done right, then do it yourself?

WHICH WAY UP?

As usual, the royal roads to chiefdom are through two career paths: finance-accounting, which accounted for 31% of this year's CEOs, and merchandising-marketing, which claimed 27%. Engineering-technical is still third, with 22%. Nothing else even places, though 11% came up through production-manufacturing, and 9% through the legal department. In all these, multiple responses tend to distort the numbers a bit.

One interesting finding is that careers have not been quite as cut and dried as one would have thought. While 31% of CEOs have worked for only one employer, half have worked for two or three. And the rest have been really footloose: 16% worked for four or five employers.

A few worked for six or more, including PaineWebber's Marron and Union Pacific's Drew Lewis.

AT EASE

The photo essay on CEOs' leisure activities that begins on page 39 is an entertaining look at the boss at play. But it can only hint at the diversity of activity of these energetic souls. More than 700, for example, indulge in some sport, or more than one, and no fewer than 374 claim golf as their game, and several boast of low handicaps, including Chemical Waste Management's Jerry Dempsey, with 11.

There are 288 tennis players (including one platform tennis), 11 squash players, and 17 racquetball men. Fishermen number 131. They're of all kinds, from fly to deep-sea (including National Medical's Richard Eamer, who catches salmon on flies). GM's Stempel is a surfcaster. Skiers? 115; sailing enthusiasts? 108, including Ted Turner, a celebrated yachtsman. There are also canoers and kayakers, and plenty of hunters, especially of ducks and other game birds. Alleghany's Kirby hunts foxes.

A contingent (36) hikes or climbs; 31 are dedicated swimmers, 20 go for bicycles, 19 scuba or snorkel. There are 18 flyers, including Stratus Computer's Foster, who goes in for aerobatics. Hilton Hotels' Hilton is a balloonist.

Lots of people collect lots of things. Several are into antique autos. Others are art collectors, including Ben Edwards, who collects Chinese porcelains (so does Koger Properties' Koger). Trinova's Darryl Allen collects *Star Trek* memorabilia. Quite a few breed dogs, horses, cattle, sheep; raise orchids, pecans, peacocks (Park of Park Communications), dabble in archeology (Neutrogena's Cotsen), watch birds, play the clarinet, the bassoon, the organ, the piano, the violin, the guitar. Some just play bridge or gin rummy.

MARRIED

This is an uxorious bunch: 96% of them declare that they are presently

married, and only 2%, 21 respondents, admit to being currently divorced. Divorce seems to be interpreted as a discrete marital state, like widowhood (eight CEOs say they're widowed). We suspect that if we asked "Have you ever been divorced?" the response would have been quite different. Well, some other time.

WITH CHILDREN

The average number of children reported—a bit over three—reflects the circumstance that on average they were young marrieds in the baby boom years. And some of them really got into the spirit of things: 69, including Manny Hanny's McGillicuddy, produced five children; 26 CEOs, including Heinz' Tony O'Reilly, raised six, and 11, including Ingersoll-Rand's Black, have seven.

Then there are the real stalwarts: Four have eight children apiece, including Black & Decker's Archibald and Honeywell's Renier. Two have nine kids: Peter Grace and Rollins Environmental's John Rollins. Mine Safety's L. N. Short has 10, and Enserch's William McCord is the patriarch—with 11.

No fewer than 122 CEOs admit to employing a grown child in his or her company (Kay Graham's son Donald, for one). Many, of course, are family-company scions—Wrigleys, Sulzbergers, Kempers, Graces, Tischs, Tysons. But so does AT&T's Bob Allen and Kimberly-Clark's Smith.

In addition, 43 CEOs report that an offspring works in the same industry, though not in the same company. Must be in the blood.

MISCELLANY

Just a few facts to wrap it all up: Much more than half the CEOs saw some military service, close to half of them in the Army. There were 136 Navy men, including James Kinnear of Texaco, which always has some Annapolis ring-knockers. There were 80 in the Air Force, 36 Marines. Leadership? About half were officers, 8% were NCOs.

We have four New Year's babies, one Christmas kid, three Hallowe'ens, and two April Fools—McCord of Enserch and Stegemeier of Unocal. Four CEOs were born on Friday the 13th: Leon Hess, Merrill Lynch's Schreyer, CUC International's Forbes, and Kimball International's Habig. Lots of luck! ▣

LOST IN THE STARS

NEVER MIND ECONOMIC CRYSTAL BALLS. WHAT CAN THE STAR GAZERS TELL US? TO FIND OUT WHAT'S IN THE STARS FOR OUR CEOS, WE ASKED LAURIE BAUM, A FORMER BUSINESS REPORTER WHO'S NOW A PROFESSIONAL ASTROLOGER WITH, SHE REPORTS, SEVERAL CEOS AMONG HER CLIENTS, TO CAST HOROSCOPES FOR THE 12 SUN SIGNS. SHE'S COME UP WITH SOME SEARCHING ANALYSES.

THE CEO LIST USED TO BE WEIGHTED TOWARD TAURUS, WHICH BAUM SAYS PRODUCES "TENACIOUS, PATIENT, STUBBORN" PEOPLE: CAUTIOUS CONVENTIONAL, BUDGET WHIZZES, AND BEARS FOR ACQUISITION. EXXON'S LARRY RAWL AND BANKAMERICA'S RICHARD ROSENBERG ARE NOTABLE TAURUSES.

THIS YEAR, THERE ARE ONLY 89 TAURUSES; VIRGO IS THE SIGN OF THE TIMES, WITH 101. AND VIRGOS MAY BE MORE SUITED TO THE 1990S. BAUM CHARACTERIZES THEM AS WORKAHOLICS AND PERFECTIONISTS, DETAIL MEN WITH A PASSION FOR PLANNING. "IMAGINATION AND CREATIVITY WILL BE THE VIRGO'S BEST ALLIES IN 1991," SAYS BAUM. GOOD NEWS FOR TROUBLED CHASE MANHATTAN'S TOM LABRECQUE. OTHER TOP VIRGOS: SALOMON'S GUTFREUND, LIMITED'S WEXNER.

A CURIOSITY IN THE CEO LIST IS THE NUMBER OF HIGH-TECH AND COMPUTER CHIEFS HUDDLED UNDER THE SIGN OF CAPRICORN, THE SMALLEST GROUP IN THE LIST (57). SOME STANDOUTS: COMPAQ'S CANION, IBM'S AKERS, COMPUTER SCIENCE'S HOOVER, LOTUS' MANZI. BAUM CALLS CAPRICORN "THE CLASSIC OVERACHIEVER." NEXT YEAR, SHE SAYS: HIS VISION WILL EXPAND, INNOVATION WILL CAPTURE HIS FANCY. IF YOU'RE INTO NUMEROLOGY, SALLIE MAE'S HOUGH WAS BORN 4/4/44. BAUM SAYS THAT MEANS A DREAMER WITH A PRACTICAL STREAK. ALRIGHT!

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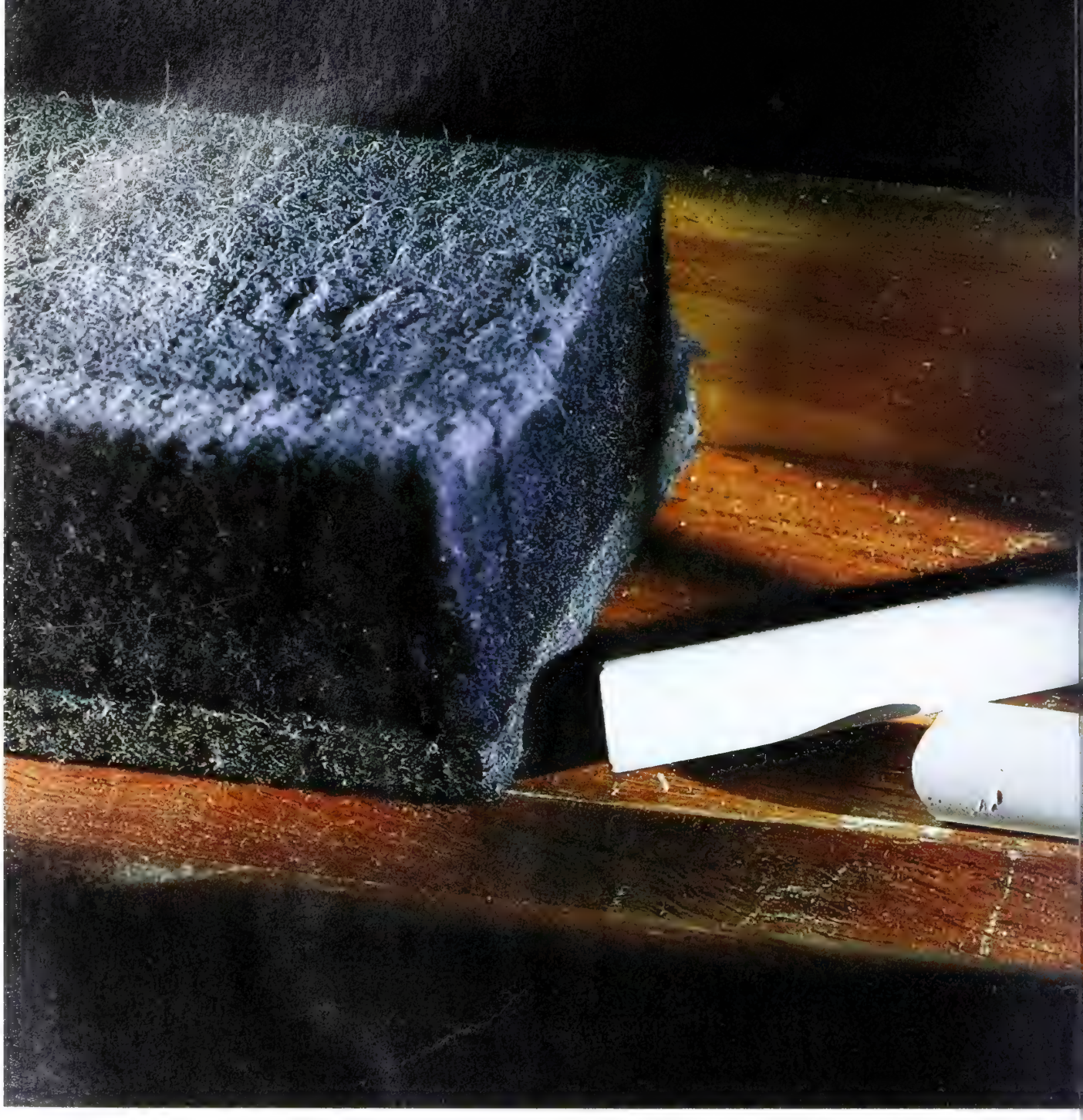

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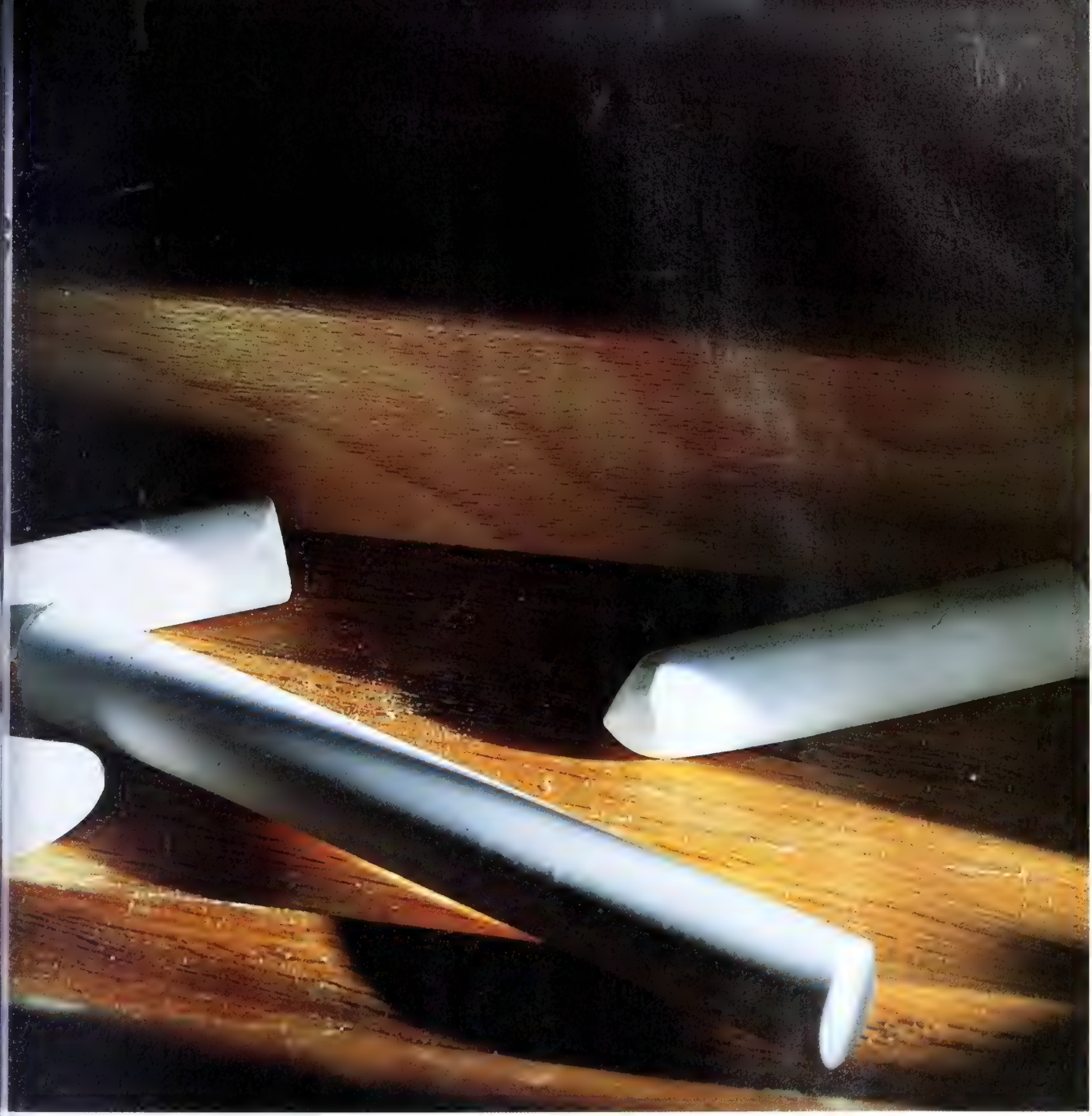

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MBASSADORS RECRUITED FROM BUSINESS ARE HEAVY-UTY FUND-RAISERS, BUT THEY'RE USUALLY LIGHTWEIGHT PLOMATS. HERE'S A LOOK AT BUSH'S APPOINTMENTS

PUBLIC SERVICE

Italians were appalled last year when President Bush nominated Peter F. Secchia, a backslapping Michigan lumber tycoon, to be the U.S. ambassador in Rome. Secchia's only qualifications med to be that he was Italian-American and a tireless ublican Party fund-raiser who helped swing his state Bush in the 1988 campaign. Insult turned to injury en he undiplomatically quipped at a party in Michi-: "I saw the new Italian Navy. Its boats have glass toms so they can see the old Italian Navy." The tter came up at his confirmation hearing.

ecchia, who got the job anyway, was by far Bush's st colorful nominee. But in many ways, he's typical of clutch of business executives appointed by the Presi-t to serve as ambassadors. Most are successful ugh little-known entre-neurs with scant over-s experience but impec-le political credentials. rida shopping-mall mo- Melvin F. Sembler, am-sador to Australia, con-uted more than $100,000 Republican Party coffers. did fellow Florida real ate developer Joseph ppala, whom Bush ap-nted envoy to Spain. J. fen Weinmann, president Waverly Oil Corp. before oming ambassador to land, was a member of sh's 1988 national fund-sing committee.

Real captains of com-rce and industry are rare the ambassadorial ranks. jobs offer great perks almost no real author-ity. Thanks to the high-speed fax and computerized files, policy is now more tightly controlled by Washington. Bush often by-passes ambassadors, preferring regular phone chats with heads of state. "Very little business is done in the embassy in London now," says retired career Ambassador Malcolm Toon of official U.S. relations with Britain. "Margaret Thatcher and George Bush do most of the real work on the telephone." And in the rare cases where an ambassador is expected to do diplomatic heavy lifting, the job almost always goes to a career government professional or an academic expert.

So being an envoy doesn't offer many thrills for someone used to running a $1 billion-plus corporation. "If you're Lee Iacocca, you're not interested in going to London or somewhere else as ambassador unless you want a rest," says retired Ambassador David Popper, president of the American Academy of Diplomacy.

THE BETTMANN ARCHIVE

Besides, top-tier CEOs rarely make it to the top of the ambassadorial headhunters' lists. Notes one former diplomat: "The President is not out there looking for business expertise. He's rewarding political allies, and those people tend not to be mega-donors or fund-raisers."

Bestowing ambassadorships on wealthy business backers is a time-honored Presidential tradition. In each of the past five Administrations, 30% to 40% of foreign policy posts were manned by appointees from outside the career Foreign Service. The proportion tilts toward the high end of the

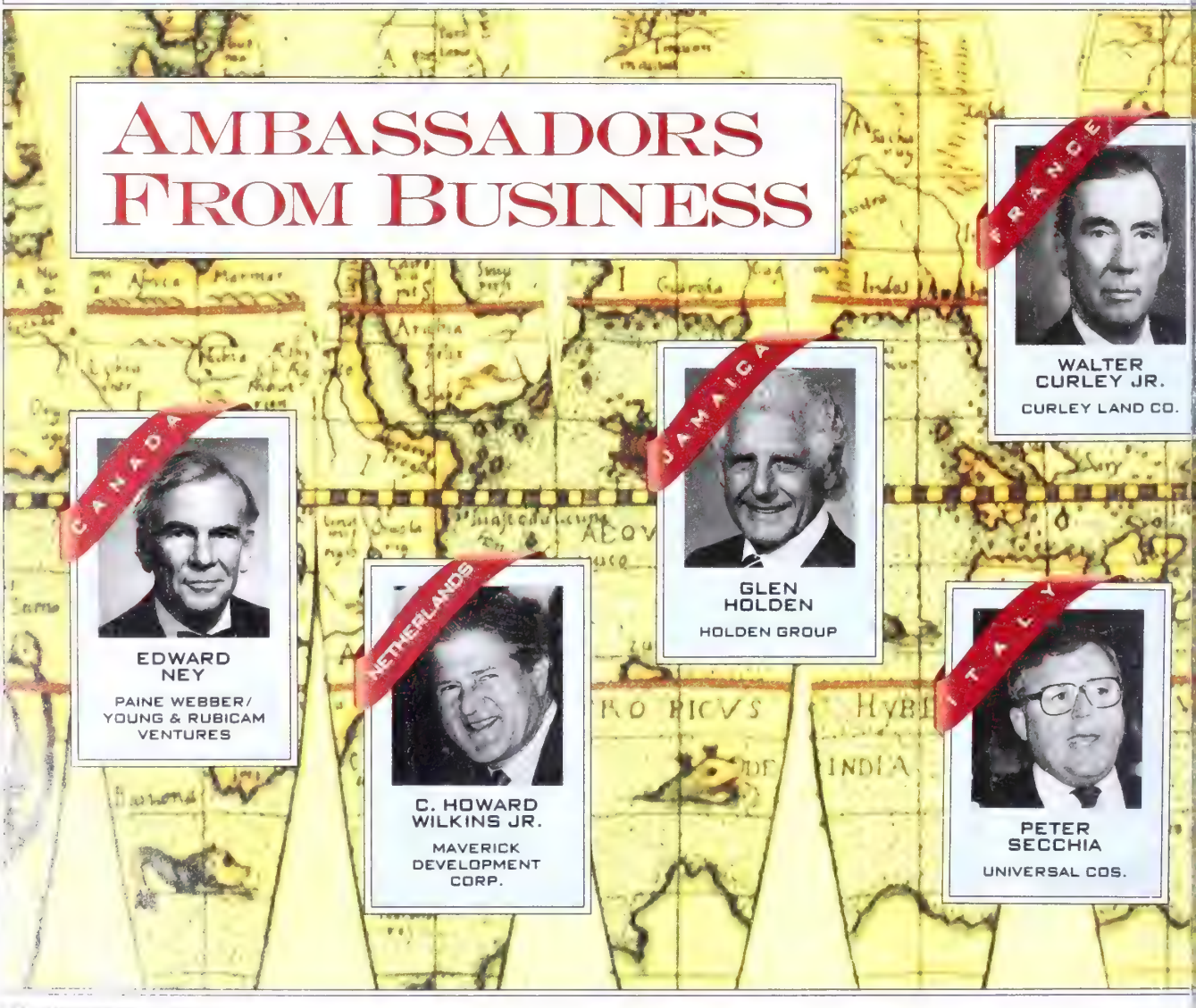
range during Republican Presidencies. By unwritten rule, the cushiest embassies in Western Europe—especially Rome, London, and Paris—almost always go to wealthy amateurs. Sun-drenched Australia has also hosted a long line of political cronies from business circles. Career diplomats are most plentiful in less glamorous posts.

Still, howls of protest were heard in the Senate and the Foreign Service last year over Bush's initial nominees, who included an unusually high number of executives with little foreign expertise. Senator Paul Sarbanes (D-Md.) held up Zappala's appointment for four months, while Senate Foreign Relations Committee Chairman Claiborne Pell (D-R. I.) lambasted Secchia. In the end, the committee, as always, caved in. "Unless he's committed a crime or taken an outrageous position on some issue, we're never going to turn anyone down," concedes a Senate Foreign Relations Committee source.

For all the sniping, even career diplomats admit that executives-turned-ambassadors can be a welcome breath of fresh air. Their business background is potentially a plus in promoting trade, a growing part of the job. Years of political socializing can also pay off. "After doing the inauguration, a reception for 800 people at the embassy comes more naturally," says Penne Percy Korth, an ex-Sotheby's representative who co-chaired Bush's inaugural festivities. Korth now represents the U. S. in the Indian Ocean island nation of Mauritius.

Nevertheless, few envoys with business backgrounds have earned high marks. "Most just occupy the office, enjoy the perks, and move on," says a Foreign Relations Committee source. One notable exception is Charles J. Pilliod Jr., who moved to the embassy in Mexico City in 1986, three years after retiring as chairman of Goodyear Tire & Rubber Co. Pilliod, who speaks Spanish and spent more than 16 years in Latin America for Goodyear, was respected as a tactful spokesman for Ronald Reagan. He helped craft a framework for a U. S.-Mexico free-trade pact and mingled easily with Mexican officials. Romulo O'Farrill, an executive at communications conglomerate Televisa, is an old hunting and skiing buddy.

Charles Price, Reagan's envoy to Britain, also made a good impression. When the news of the Lockerbie air



disaster broke, he left a dinner party and flew to Scotland, where TV cameras recorded him, grim-faced, trudging through the area all night and into the next day.

But other Reagan appointees seemed to excel at irritating the locals. Pilliod's predecessor, actor and California businessman John Gavin, had a habit of preaching democracy and free-market economics that outraged Mexicans. Investment banker Evan Galbraith, Ambassador to France from 1981-85, created a huge diplomatic tempest when he criticized the naming of Communists to key government posts by President François Mitterrand. Former ambassador to the European Community J. William Middendorf II, a banker and amateur composer, dumbfounded EC officials when he presented them with his very own *European Community March.*

Bush's cadre of corporate ambassadors so far have turned out to be less controversial. Despite the low expectations, says Popper, "they're doing alright." Australian Prime Minister Bob Hawke, initially unhappy with Sembler's nomination, changed his mind after meeting the 59-year-old ambassador, who keeps a low profile in Canberra. Administration officials praise Korth's flair and her initiative in drumming up business opportunities for U. S. companies in Mauritius. In addition to socializing, Korth has managed to be of real help in clinching a deal for U. S. cotton to supply a Mauritian weaving mill.

The real sleeper of the bunch has turned out to be Secchia. In less than a year and a half, he has traveled to each of Italy's 37 provinces, learned passable Italian, and become something of a hit with local politicians. "He's an unbelievably quick learner and a hard worker," says one State Dept. aide. Secchia recently smoothed through a $4.2 billion sale of Raytheon Co.'s Patriot missiles and an aviation treaty that will bring three U. S. carriers to Italy.

Secchia argues that his entrepreneurial credentials are useful in a big embassy with personnel from some 35 U. S. government agencies, and where only 10% of the staff is from the State Dept.

Moreover, Italians are starting to warm to his frank and friendly ways. Says a senior Roman industrialist: "As a businessman, Secchia is doing a decent job promoting his country. As for his political skills, he just doesn't have the background. But does it matter that much?" These days, it seems, the answer is no.

By Amy Borrus in Washington, with John Rossant in Rome, Pia Farrell in Paris, Jennifer Donelon in Brussels, Stephen Hutcheon in Sydney, Richard A. Melcher in London, and Stephen Baker in Mexico City.

PHOTOGRAPHS (MIDDLE LEFT TOP RIGHT) AP/WIDE WORLD

THE NEW CEO

MORE ROOM AT THE TOP? THE TURNOVER RATE AT BIG COMPANIES IS SPEEDING UP, AND THE NEW BOSSES ARE A DIFFERENT BREED FROM THEIR PREDECESSORS. MEET SOME

After an intense eight month break-in as Gerber Products' new president, Al Piergallini finally got a chance to relax over Christmas with his wife Lorraine and their two kids on a trip to California. Then came an urgent call from the baby-food maker's Fremont, Michigan headquarters. Dave Johnson, Gerber's chief executive, had just been offered the top spot at Campbell Soup and he announced that he was going to take it. A week later, Piergallini celebrated the new year—as Gerber's new CEO.

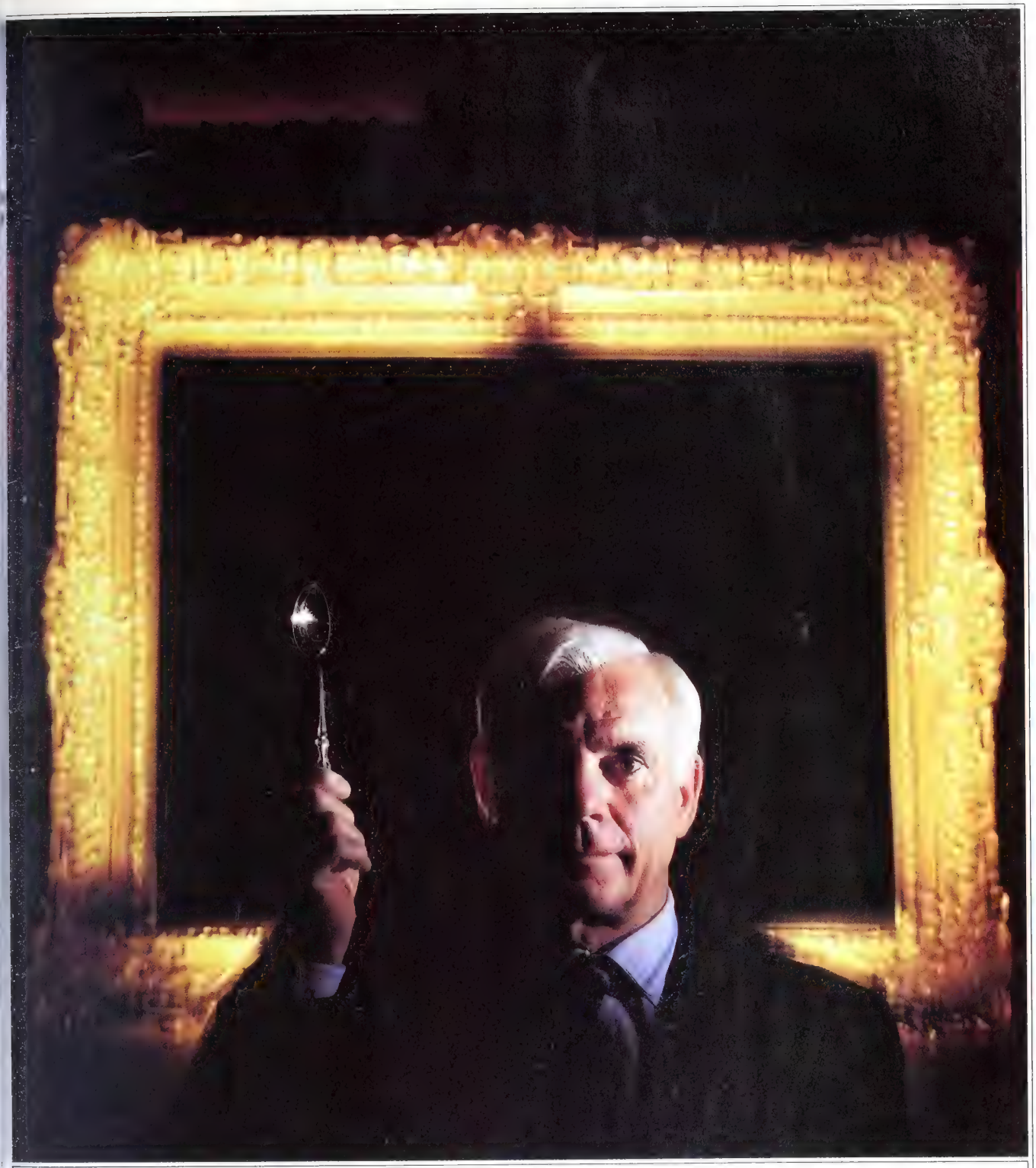
Most transitions don't happen that quickly, of course. The move into the top spot traditionally takes years. After a slow methodical trudge up the corporate ranks, a loyal subaltern is tapped by a white-haired chief, with an approving board of directors looking on.

But that scene is fading. All told, 108 new faces appear in this year's Corporate Elite, up from 93 in 1989. And of these new CEOs, 19, or 17.6%, had been with their companies less than a year, up from 13, or 14% in 1989. In both years, some 20% of the new chiefs had arrived within the past three years. Such statistics suggest that the loyal Organization Man is increasingly losing out to more mobile outsiders. Case in point: Alfred A. Piergallini had been with Gerber all of eight months when he got the top job. His predecessor Dave Johnson joined Campbell as CEO.

A lot of corner offices are going to become vacant in the next five years, as age and mandatory retirement force out the old guard to make room for the new. A 1990 Jennings Mobility survey shows that 44% of the top officers at the 360 largest U. S. industrial corporations—all of them men—were born in 1929 or earlier, which makes them eligible for retirement within the next five years. As a result, the turnover rate, which averaged 19% during the 1970s and 28% during the last decade, is expected to jump to at least 33% by 1995. "We are standing on the threshold of a new era," says Eugene E. Jennings, professor emeritus of Michigan State University's business school, whose study has followed corporate turnover trends since 1939.

Ford and General Motors already have changed chiefs in the past year, although Ford's new chief, Harold A. "Red" Poling is 65 and largely seen as an interim general. The other freshmen CEOs featured in these pages head some of America's best-known corporate names, not to mention 10% of the Dow Industrial's membership. Others with new CEOs in the past 12 months include Abbott Laboratories, *(Text continues on page 32)*

Photographs by Chriss Wade



DAVID W. JOHNSON

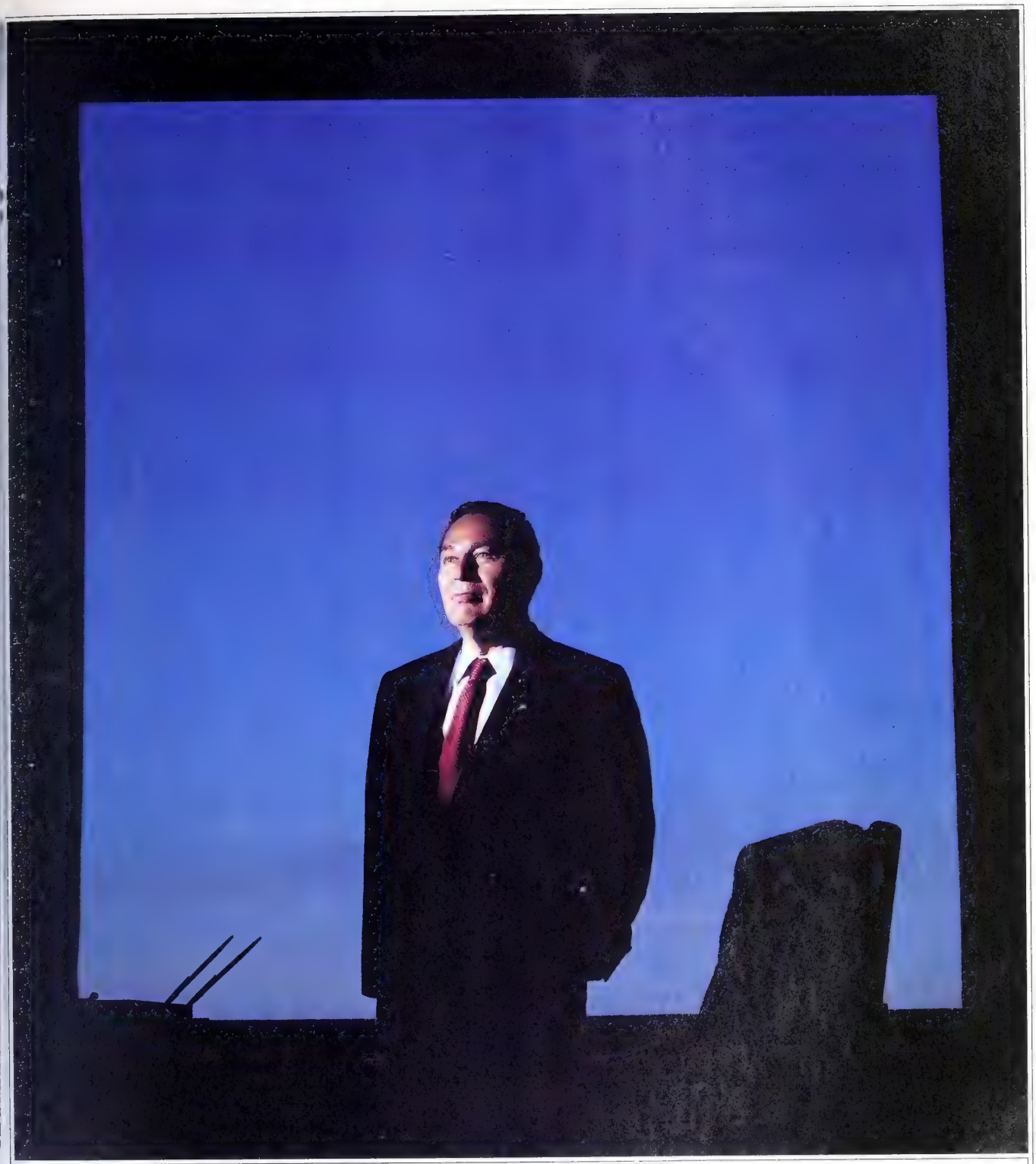
CAMPBELL SOUP

IF ENTHUSIASM IS ENOUGH TO RALLY THE TROOPS AT HIS TROUBLED COMPANY, HE'S GOT IT MADE. LAST JANUARY, THE NEW MAN MARCHED INTO CAMPBELL'S WITH A BRASS BAND PLAYING THE CORPORATE JINGLE MUSIC, 'M'M! M'M! GOOD!'

ALFRED A. PIERGALLINI

GERBER PRODUCTS

GOOD EXAMPLE OF THE NEW BREED OF CHIEF EXECUTIVE, HE'S A GOOD DOZEN YEARS YOUNGER THAN THE AVERAGE CEO. ANOTHER DIFFERENCE: HE'S MOVED AROUND, WORKING FOR SEVERAL COMPANIES BEFORE FETCHING UP HERE



RICHARD M. ROSENBERG

BANKAMERICA

CAN AN ENEMY TURN INTO A FRIEND? HE WORKED 22 YEARS FOR ARCHRIVAL WELLS FARGO BEFORE COMING TO BANKAMERICA THREE YEARS AGO. NOW THAT HE'S RISEN TO CEO, HE'S SURPRISED AT HOW OPEN COMMUNICATION STILL IS

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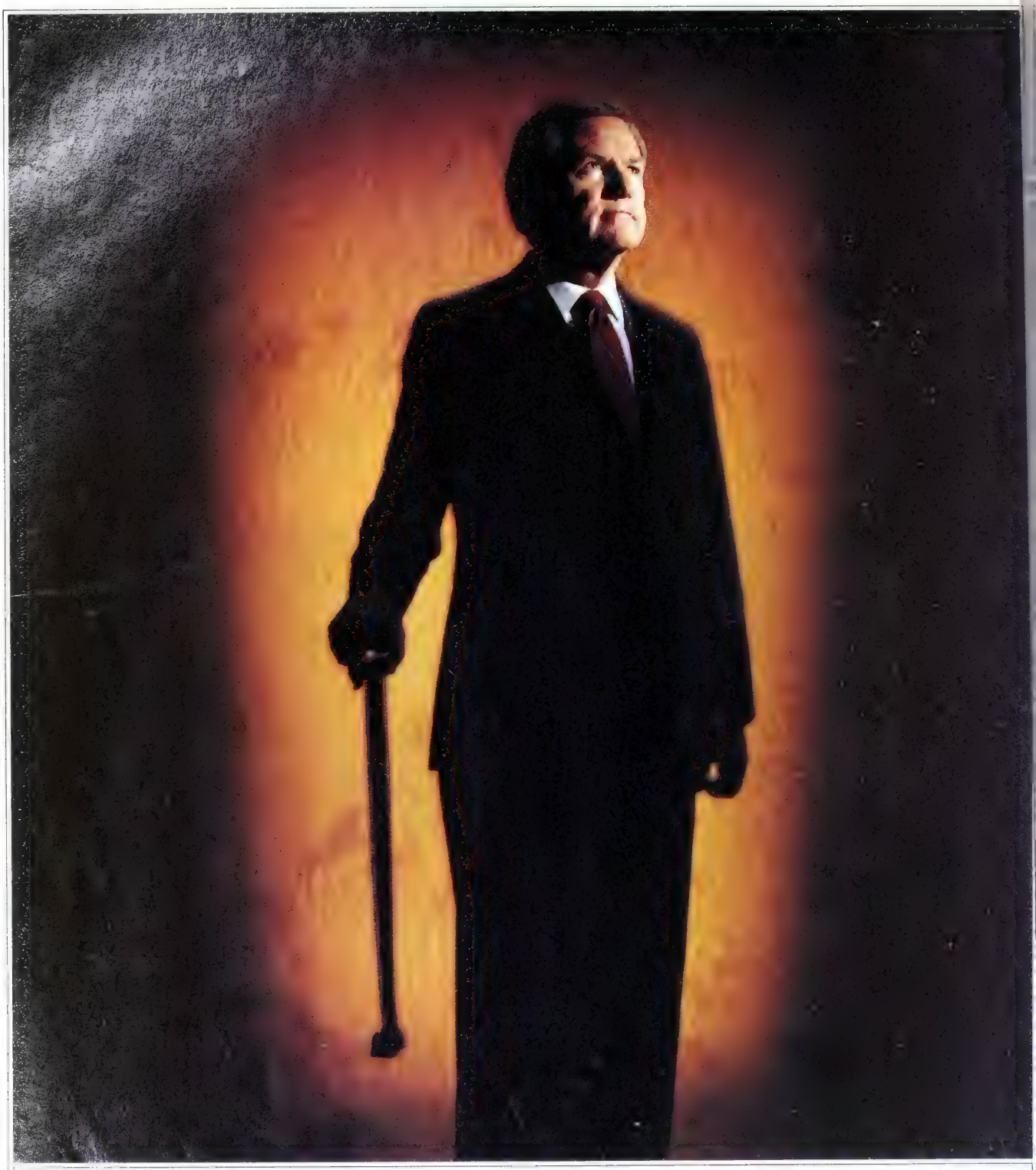
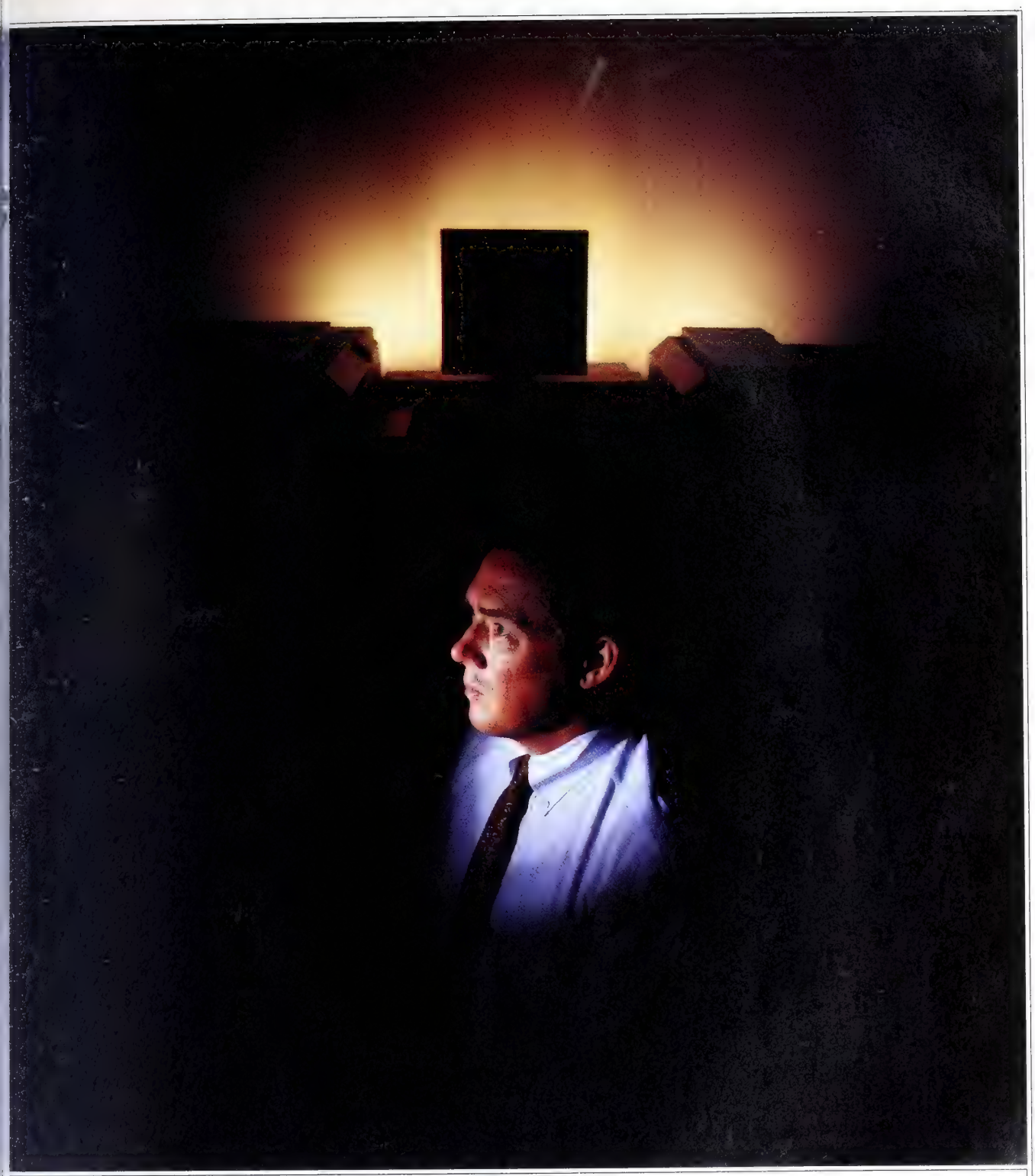


KAY R. WHITMORE

EASTMAN KODAK

ANOTHER CAREER MAN—AT A COMPANY THAT VALUES CONTINUITY. HE'LL NEED HIS 33 YEARS EXPERIENCE TO DEAL WITH KODAK'S TRIBULATIONS: INTENSE JAPANESE COMPETITION, DIVISIONS WITH PALLID RESULTS, AND A PATENT SUIT



PAUL A. ALLAIRE

XEROX

HE SAYS HE FEELS 'VERY LUCKY' TO BE CEO AT THIS TIME, DESPITE A HATFUL OF HEADACHES. MEANWHILE, THOUGH HE'S A LONG-TERMER HIMSELF, HE'S RECRUITED NEW PEOPLE FROM OUTSIDE THE COMPANY TO SHORE UP PRODUCT INTRODUCTIONS

Chase Manhattan, J. P. Morgan, Shoney's, Southwestern Bell, and Wang. Then, there's 46-year old Erroll B. Davis Jr., the new CEO at WPL Holdings Inc. in Wisconsin and the first black chief executive during the four years that BUSINESS WEEK has compiled the Corporate Elite.

The abundance of job-hoppers on this year's list doesn't mean that the Organization Man is dead. In this year's class, the new CEO spent an average 23 years with the same company before winning the top spot. Among corporate lifers were Paul E. Lego, the new Westinghouse chief, and Eastman Kodak's Kay R. Whitmore. Edwin L. Artzt has been with Procter & Gamble 37 years. He started in 1953 in sales, moved quickly to the advertising department and rose up the ranks. The ultimate promotion was announced a year ago.

But the chief of the 1990s will increasingly break with tradition. Piergallini is unusual in that at 44-years-old, he is a Baby Boomer and 12 years younger than the average top man. But his lack of career-long corporate loyalty isn't so rare. In his relatively brief career, Piergallini had worked at Procter & Gamble, Sara Lee, and Carnation before landing the president's job at Gerber in April, 1989. Richard M. Rosenberg spent 22 years at Wells Fargo Bank, but that didn't stop him from becoming CEO of archrival BankAmerica this year, after several job hops. Newcomers also won the top spots at Continental Airlines, Wang, and Shoney's this year. Corporate recruiters, citing a rise in searches for CEOs and other senior executives, expect even more companies to open their doors in the next few years.

WHEN BOARDS LOOK TO OUTSIDERS, IT'S USUALLY BECAUSE THEY WANT RADICAL CHANGE. NEWCOMERS WALK IN AND DELIVER BY DISMANTLING OLD SYSTEMS AND FIRING PEOPLE

Outsiders are often chosen as CEOs by boards of directors who want radical changes in a corporation. This means that the newcomers often must start out by dismantling old systems and firing workers. But at the same time they need to win the respect and cooperation of corporate veterans. Richard W. Miller was chosen by An Wang 13 months ago as president and chief operating officer of Wang Laboratories, replacing Wang's elder son, Frederick A. Wang. Under the younger Wang, the company had borrowed heavily to finance a sales push that fell flat. The 49-year-old Miller, known for his financial acumen at RCA and at GE's consumer electronics businesses, quickly took an ax to operations, accelerating layoffs that trimmed employment by nearly 6,000 workers since last July. "Turning Wang around will be a very rewarding experience," says Miller, but he adds that he plans to stay at Wang, in part because "I'm not sure I have another one of these in my stomach."

Another problem for outsiders is that they don't have the instinctive feel for office politics and corporate mythology that longtimers develop over the years. Gaffes are highlighted, slights magnified. Besides having to trim the work force, Miller tried to set a new tone for Wang in a series of tough-sounding advertisements. The campaign featured a man's stern face exhorting readers to "get out of the tower" and "get to work." Problem is, Wang's Lowell, Mass. headquarters is nicknamed "The Tower." Intentional or not, the ad rankled Wang employees.

Regardless of whether it irritates people, a new CEO must take a stand. "If they have a desire to keep people happy, they will be eaten alive," says Eric G. Flamholtz, professor of management at UCLA. Standley H. Hoch of General Public Utilities agrees. When Hoch arrived a couple years back, he saw insurance costs rising out of control. So he set about getting the utility's unions to O. K a new—and less generous—medical plan. "It's tough to be a CEO and win a popularity contest," says Hoch.

The toughest challenge for this year's class may await 58-year-old Hollis L. Harris, Frank Lorenzo's replacement at Continental Airlines Holdings Inc., formerly Texas Air. The new chief, a hospitable Atlantan who likes to crack jokes, is a radical switch from his intense predecessor. Says Harris: "Frank was an entrepreneur, who took parts and built the airline. I'm more of a professional airline manager, although I'll keep trying to grow Continental." The airline's problems are no joke, however. Staggering debt costs and lingering legal liabilities from its ties to Eastern Airlines have caused a steep drop in its stock price and market value that bounced the company off the Corporate Elite this year, despite its huge revenues. Still, "I saw a $5 billion company with costs per seat-mile better than their competitors, and a great route structure. The potential is unlimited," says Harris, who spent 36 years at Delta Airlines. His task: restore confidence in the airline.

Outsider or newcomer, the new CEO still has to write his own script. The raids, takeovers, restructurings, and layoffs that taxed the top executives in the 1980s have left a due bill for the 1990s. Companies may now be lean and mean, but corporate loyalty has been wounded. So, one of the main jobs of a new chief often is to convince employees that they are part of a team and to get them to work hard. "The key is communication—making people understand exactly what you want them to do and when you want them to do it," says Piergallini, after nine months at the top. To stay competitive, he figures that he needs everyone at Gerber, right down to the machine operator on the factory floor, to understand what the company's goals are and why it wants to get there.

Communication cuts both ways, and a new CEO may feel left out of the information loop. A newcomer may be alienated just because he's an outsider. But even insiders who reach the top may find the lofty title and new power keep former peers at bay. Not always, however. "One of the really pleasant surprises has been that the openness of communication has not disappeared," says Rosenberg, who took over at BankAmerica, three years after he arrived. "There is still frank, open discussion and I'm not cut off as I feared I might be."

Subordinates may be less frank when a CEO asks the ultimate question: How'm I doin'? Sycophants are common, and even key operating executives may be shy about

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directly criticizing the chief. Erroll Davis of WPL Holdings has tackled that problem by instituting an evaluation system that includes himself. Davis, who became chief in July, recently received his first evaluation, which was compiled anonymously from 11 executives who report to him. Davis' reaction: "I was pleased, [but] there are certainly a few areas where I can make improvements."

A newcomer has a tough job turning around an unfamiliar company, but an insider is often more fearful of trying to improve things without disrupting the corporate culture. Although considered an interim successor, Ford's Red Poling nevertheless has to speed up development of new vehicles and engines to match a product blitz from the Japanese and GM. Kodak's newly elevated Kay Whitmore faces similarly tough challenges

WPL'S DAVIS ADDED HIS NAME TO THE EVALUATION LIST. HOW'S HE DOIN'? 'THERE'S A FEW AREAS WHERE I CAN MAKE IMPROVEMENTS'

from Japan in the company's core photographic businesses.

One man who assumes a heavy corporate mantle is Paul A. Allaire at Xerox. Allaire's boss, the pioneering David Kearns, pushed Xerox into financial services, which contributed more than half of income in 1988. Now, financial services is in trouble. Problem loans at a real estate affiliate forced a $400 million writeoff in the first quarter. Trouble in property and casualty insurance is causing Xerox to push out of personal lines. But, Allaire, 52, says "I feel very lucky to be moving into the CEO position at this time." The reason: Xenith, a promising new product that serves as a digital copier, laser printer, and conduit for transporting images along a computer network. Allaire, however, has brought in outsiders to make sure Xerox doesn't repeat past product introduction mistakes.

Allaire's reach for fresh viewpoints is common corporate practice. Boards

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are less patient with mediocre
gement than they used to be,
nore willing to go and take ac-
' says Gerard R. Roche, a direc-
with search firm Heidrick &
ggles Inc. in New York.
e man who's gotten the call is
allini's old boss, David Johnson.
turning Gerber around, John-
was tapped by the Campbell
to fix the struggling food prod-
company. Johnson set the tone
the start, hiring a brass band to
Campbell's "M'm! M'm! Good!"
e as he marched into the corpo-
cafeteria to address the staff.
Johnson, 58, will need more than
horns to boost Campbell. The
any is breaking even these days,

TURNOVER RECIPE:
DIRECTORS ARE LESS
ATIENT WITH MEDIOCRE
MANAGEMENT THAN
HEY ONCE WERE, AND
MORE WILLING TO ACT

h is slightly worse than recent
's. Johnson's goal: boost earnings
share 20% annually and boost re-
on equity and cash return on
ts each to 20% annually. His big-
challenge: assuage the warring
rance family shareholders, some
hom want to break up the compa-
nd sell it.
it lonely at the top? You bet. But
ie freshmen find work piling up,
can always turn to experienced
ds for some advice. In December,
Center for Leadership and Career
lies at Atlanta's Emory Universi-
vill hold a "school" for new chief
cutives. The two-and-a-half-day
inar will bring old and new chiefs
ether to talk about such touchy
cs as dealing with peers who
e by-passed for the top job and
to read your board of directors.
topic not on the syllabus: how to
p your job.
*y Bruce Hager in New York, with bu-
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How does Football Hall of Famer Bob Griese, now a broadcaster and businessman, stay in such great shape? Here's what he has to say about the Schwinn Air-Dyne:

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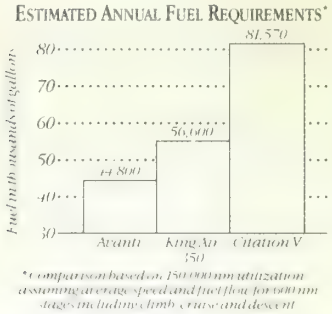
For example, should jet fuel stabilize at $2.50 per gallon, Avanti will save almost $30,000 a year in fuel costs alone compared to a King Air 350, and more than $90,000 compared to a Citation V.



That should come as welcome news in light of the current uncertainties over the price of oil. But better yet, Avanti achieves this remarkable performance without compromising on speed or comfort.

With a top speed of 460 mph, Avanti is faster than any other business turboprop. In fact, it's even faster than some business jets. And at six feet wide and five feet nine inches high, Avanti's cabin is without equal outside the ranks of midsize jets costing $8 - $12 million.

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AVANTI SALES

Ah, leisure! Sages as varied as Aristotle, Disraeli, Samuel Johnson, and Gertrude Stein have weighed in on its value and its importance. Cicero said it's what makes life worth living. Oscar Wilde, naturally, went further. "Work," he declared, "is the refuge of people who have nothing better to do."

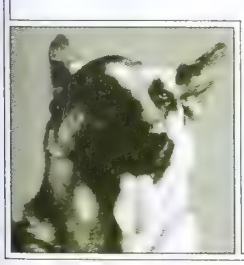
Very few of the chief executives of America's most valuable companies would count themselves in Wilde's

OFF HOURS

camp. Yet many—despite schedules chockablock with dawn-to-dusk meetings and frequent evening social events—pursue leisure as avidly as they chase success. That doesn't surprise the experts. High-achievers usually live busy, enjoyable lives, they say. "Those not interested in doing anything but work are not likely to be CEOs," says John Neulinger, author of *The Psychology of Leisure* and professor emeritus of psychology at City College of New York.

Neulinger, for one, believes that Americans overall don't spend enough time seeking leisure, which is more than just piddling away spare time. True leisure, he says, is a state of mind. It comes about when a person engages in an activity that produces satisfaction, control, and freedom. And it's that feeling, so important to the

Text by Judith H. Dobrzynski



human psyche, that gives leisure its regenerative, therapeutic quality.

People who make time in their lives to cultivate leisure usually recognize its benefits innately. Ask them why they do what they do, and they echo each other. Listen to Richard Mahoney, the earnest CEO of Monsanto: "Everybody needs a change of pace. And those who don't get it, don't get back refreshed to their work." Or Scott McNealy, chief of Sun Microsystems: "You gotta make time for this stuff. It's so far off from what I do the rest of my life."

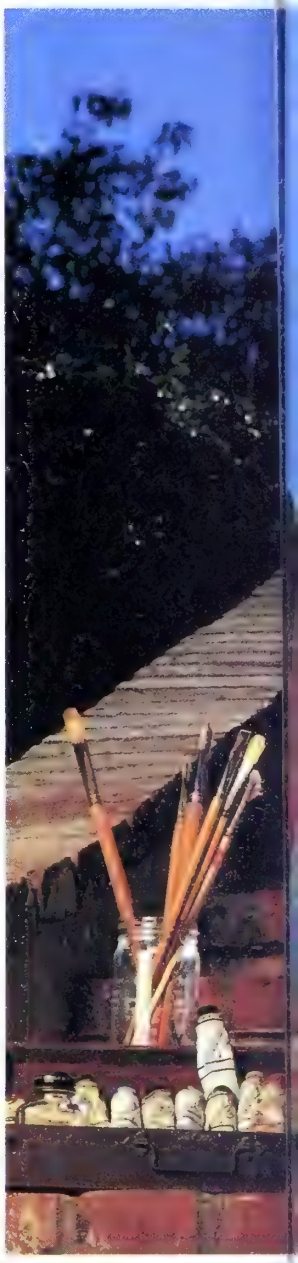
So what do America's CEOs do in their off-hours? Not surprisingly, many fall into the sand trap: Golf is cited by more CEOs than any other pastime (page 8). Tennis places No. 2. But many heads of companies are more creative than that. Mahoney, for one, is an avid collector of Winston Churchill memorabilia. McNealy can frequently be found chasing a hockey puck around an ice rink. And quite a few other CEOs exhibit a flair for the unusual. Read on.

RICHARD STEGEMEIER

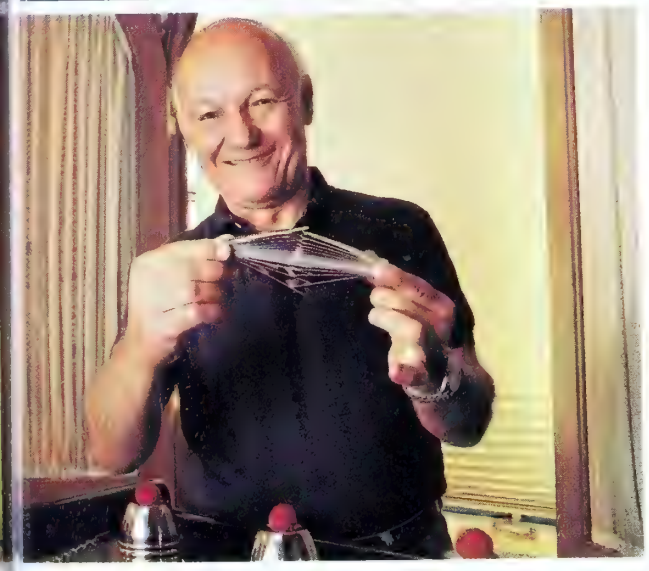
UNOCAL

GIVE RICHARD STEGEMEIER A FEW SPARE HOURS, AND WHAT DOES HE DO? HE PAINTS. MOSTLY STILL LIFES, IN OIL. "I GO INTO THE KITCHEN AND GRAB A COPPER POT AND AN ONION, OR VARIOUS COMBINATIONS, AND SET IT UP IN LIGHT," HE SAYS.

SOME OF HIS WORKS ARE HUNG AT HOME, SOME AT THE OFFICE; SOME HE GIVES AWAY. IT DOESN'T BOTHER HIM THAT "A LOT ARE IN CLOSETS." STEGEMEIER HAS NO PRETENSIONS OF BEING A WINSLOW HOMER, HIS FAVORITE AMERICAN PAINTER, OR ANYONE FROM HIS FAVORITE SCHOOL, THE DUTCH AND FLEMISH OLD MASTERS. SELF-TAUGHT, HE PAINTS TO RELAX. "I'M AN ENGINEER; I LIKE TO WORK WITH MY HANDS," HE SAYS. INDEED. UNOCAL'S CHIEF CAN ALSO BE FOUND BUILDING FURNITURE, SCULPTING, AND WORKING AT HIS LATHES. PAINTING HAS A SINGULAR VIRTUE FOR HIM, THOUGH. STEGEMEIER CAN FINISH A 60- BY 20-INCH CANVAS IN ABOUT THREE HOURS. "THAT'S ABOUT THE TIME I CAN DEDICATE TO THIS."



PHOTOGRAPHS BY ANN LEVENSON FOR BUSINESS WEEK



ALAN GREENBERG

BEAR STEARNS

ABRACADABRA: ALAN GREENBERG WAS HOOKED. "I SAW HARRY BLACKSTONE AND SALLY RAND WHEN I WAS NINE, AND THAT TOOK CARE OF MY HOBBIES FOR LIFE," HE JESTS. HE STARTED LEARNING MAGIC RIGHT AWAY, ANYWAY. NOWADAYS, "ACE" FREQUENTLY SPENDS SATURDAY AFTERNOONS AT AN AMATEUR MAGICIANS HANGOUT, WHERE HE SCHMOOZES AND LEARNS NEW "MIRACLES." HE OFTEN SHOWS OFF HIS SLEIGHT-OF-HANDIWORK AT HOSPITALS AND CHARITIES, MAKING COINS DISAPPEAR AND CARDS APPEAR FROM NOWHERE.

THIS MASTER OF STOCK TRADING IS A WIZARD AT OTHER ACTIVITIES, TOO. HE TRAINS DOGS, WHITTLES, SHOOTS POOL, PRACTICES ARCHERY AND THE YO-YO, AND PLAYS CHAMPIONSHIP BRIDGE. BUT MAGIC HAS HELD HIS ATTENTION THE LONGEST.

JAMES TREYBIG

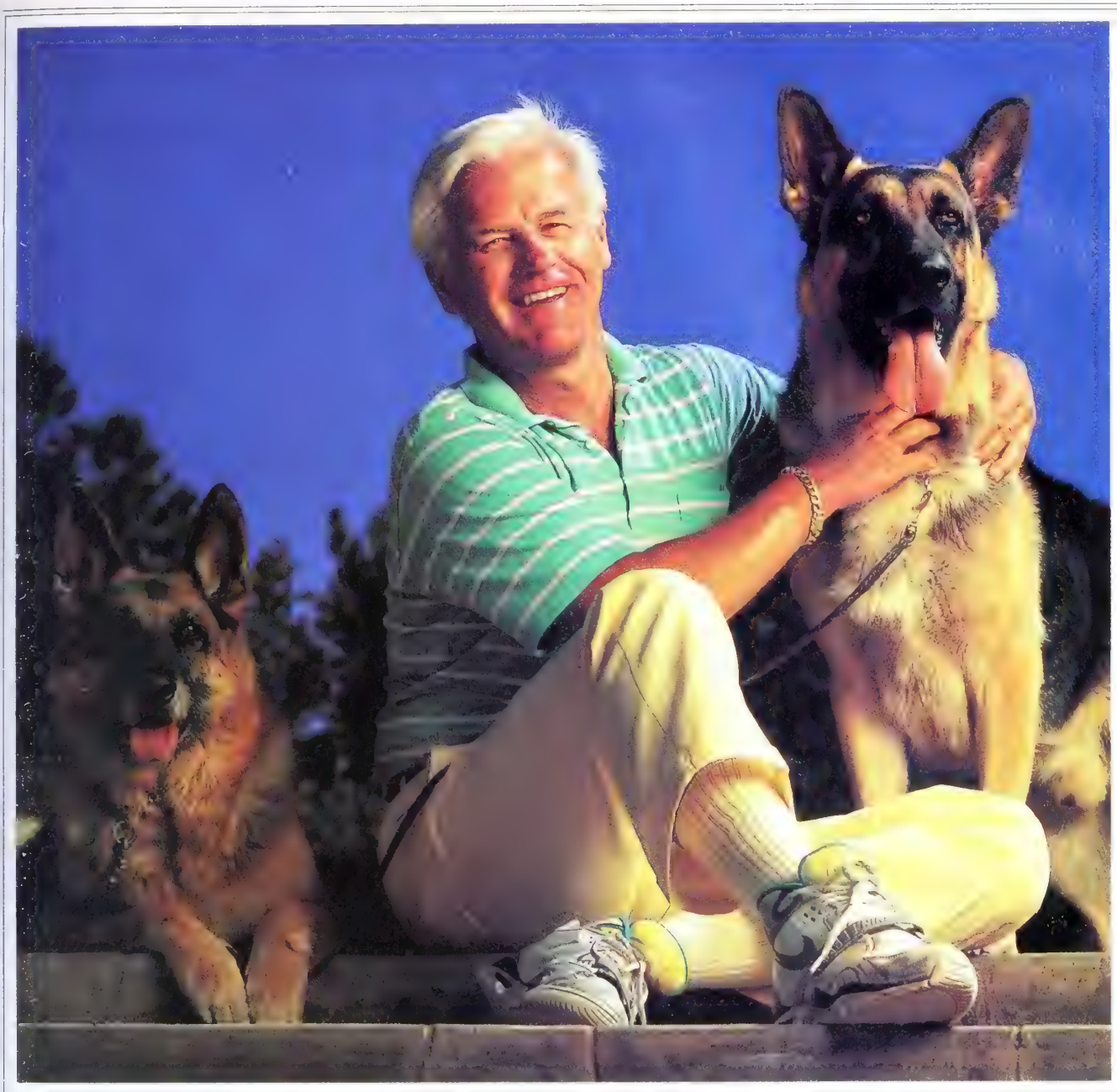
TANDEM COMPUTERS

"THE FIRST TIME I TALKED TO A FOREIGN COUNTRY, I DIDN'T KNOW WHAT A FOREIGN COUNTRY WAS," ADMITS JIMMY TREYBIG, WHO WAS BITTEN BY THE HAM RADIO BUG AT AGE 8 AND HAD WON A LICENSE BY 12. BUT THE HOBBY TURNED HIM INTO A CONFIRMED GLOBE-TROTTER. LIKE MOST HAMS, TREYBIG COVETS CONFIRMATION CARDS FROM REMOTE LOCATIONS. SEVERAL TIMES A YEAR, HE—WITH TWO DOZEN BAGS OF RADIO GEAR, A FEW 50-FT. COLLAPSIBLE ANTENNAS, AND HIS WIFE—HEADS OFF FOR SUCH EXOTIC DESTINATIONS AS KIRIBATI AND TAHITI. HE'S SOON TALKING TO SEVERAL OTHER HAMS A MINUTE. BETWEEN TRIPS, TREYBIG OFTEN RISES IN THE WEE HOURS TO CONVERSE FROM THE UPSTAIRS RADIO ROOM OF HIS LOS ALTOS HILLS (CALIF.) HOME. TREYBIG FINDS RADIO SOOTHING BECAUSE IT'S NOT LIKE COMPUTERS. "YOU CAN FIND MAGIC IN RADIO. I LIKE IT JUST BECAUSE IT'S NOT LOGICAL." THAT'S WHY TREYBIG WILL SOON BE OFF AGAIN—TO WEST AFRICA.

RICHARD WOLLENBERG

LONGVIEW FIBRE

RICHARD WOLLENBERG HAS LONG PLAYED MOST WIND INSTRUMENTS: CLARINET, SAXOPHONE, OBOE, FLUTE, FRENCH HORN, AND PICCOLO—BUT HE LIKES THE BASSOON BEST. IN AN ORCHESTRA, HE EXPLAINS, "THE TREBLE INSTRUMENTS HAVE A LOT OF RESTS, BUT THE BASSOON GETS TO PLAY MOST OF THE TIME." THAT'S WHERE YOU'LL FIND HIM SIX OR SEVEN NIGHTS A WEEK, FALL, WINTER, AND SPRING—REHEARSING OR PLAYING CONCERTS IN THE NORTHWEST WASHINGTON SYMPHONY.



JOHN AMERMAN

MATTEL

WHAT DOES TOYMEISTER JOHN AMERMAN LOOK FORWARD TO WHEN HE LEAVES BARBIE AND KEN AT THE OFFICE? FOR ONE THING, A FRIENDLY LICK ON THE FACE FROM 11-YEAR-OLD TINA, HIS FAVORITE AMONG THE 18 GERMAN SHEPHERDS HE OWNS. LIKE A LOT OF OTHER AMERICANS WHO LIKE TO SPEND THEIR LEISURE HOURS WITH MAN'S BEST FRIEND, AMERMAN GUSHES WITH AFFECTION FOR HIS DOGS: "THEY'RE PEOPLE TO US," HE SAYS. "AND THEY'RE GOOD PROTECTION."

BUT THERE'S MORE TO AMERMAN'S HOBBY THAN THAT. HE ALSO ENTERS SOME OF HIS DOGS IN SHOWS—USUALLY 20 TO 25 EACH YEAR. THE POOCHES HAVEN'T DISAPPOINTED. HIS HOUNDS HAVE WON SEVERAL LOCAL CONTESTS AND PLACED AS HIGH AS SEVENTH IN NATIONAL COMPETITIONS.

AMERMAN CREDITS HIS WIFE, JERRY, WITH GETTING HIM INTERESTED IN RAISING GERMAN SHEPHERDS. SHE BROUGHT THE FIRST ONE INTO THEIR HOME SHORTLY AFTER THEY WERE MARRIED 32 YEARS AGO. HE ALSO SAYS SHE DOES MOST OF THE WORK INVOLVED WITH SHOWING THEIR BROOD: "SHE'S THE CEO OF THAT BUSINESS," HE SAYS; "I'M JUST THE CFO."

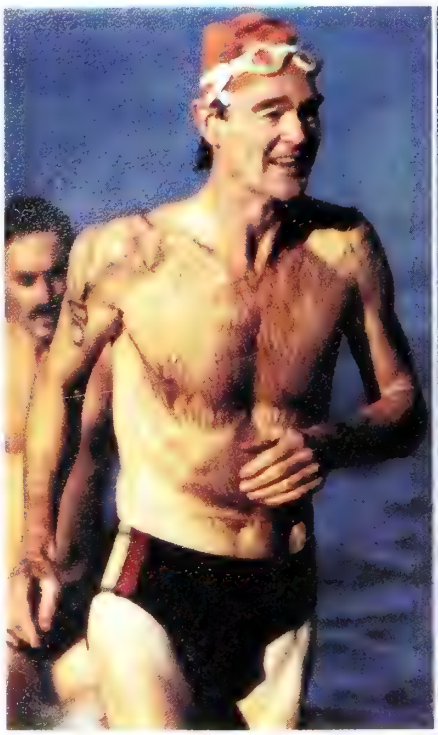
IT'S BEEN YEARS SINCE THE AMERMANS COULD KEEP ALL OF THEIR DOGS AT HOME. ONLY THREE OF THEM LIVE AT THEIR PALOS VERDES (CALIF.) HOUSE. THE OTHER 15 RESIDE IN KENNELS AT A SECOND HOME, LOCATED IN HILL COUNTRY ABOUT 50 MILES EAST OF SAN DIEGO IN JULIAN, CALIF. IT'S THERE, AT A 28-ACRE RANCH REPLETE WITH PINES, THAT AMERMAN GETS AWAY FROM IT ALL. OUT OF HIS CITY DUDS, AMERMAN LIKES TO VIEW HIS SPREAD FROM A TRACTOR. AND WHAT'S ALL THAT HOWLING? THE DOGS, OF COURSE, ANNOUNCING THAT THERE'S A COYOTE AROUND SOMEWHERE.

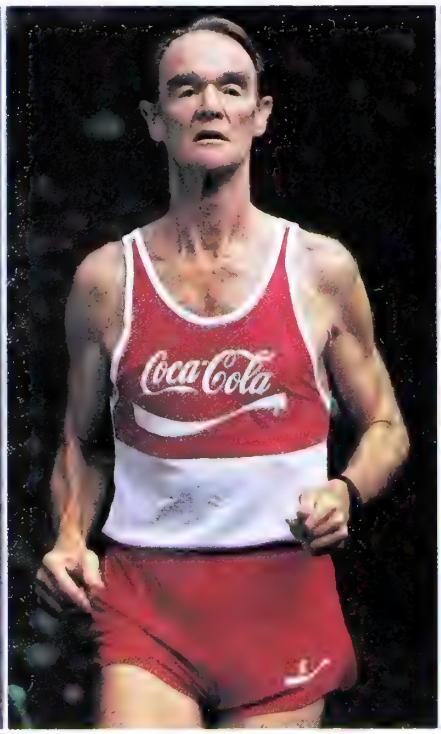
BRIAN DYSON

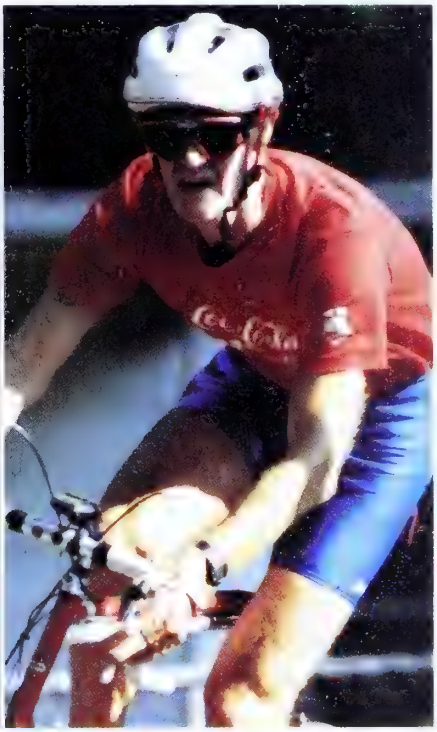
COCA-COLA ENTERPRISES

TRIATHLONS ARE ONE HECK OF A CONTEST, BUT BRIAN DYSON SAYS HE DOESN'T ENTER THEM FOR THE COMPETITION. "I GET PLENTY OF COMPETITION IN MY NORMAL BUSINESS LIFE," HE SAYS. RATHER, HE CLAIMS HE DOES IT TO SUPPORT HIS LIFESTYLE: "AS LONG AS YOU'RE FIT YOU CAN DO ANYTHING YOU WANT—EAT ANYTHING YOU WANT, INDULGE WHEN YOU WANT." THE REAL POINT OF TRIATHLONS IS THE TRAINING, HE ADDS. "IT'S MUCH MORE VARIED AND ENJOYABLE TO CHANGE FROM SPORT TO SPORT. YOU'RE LESS LIKELY TO GET INJURED," DYSON EXPLAINS. HE USUALLY TRAINS FOR SEVEN TO TEN HOURS A WEEK, MORE BEFORE A RACE.

AT 55, DYSON ROUTINELY FINISHES IN THE TOP 20 IN HIS AGE GROUP IN OLYMPIC DISTANCE RACES. HIS BEST TIME FOR THE 1,500-METER SWIM, 40-K BIKE, AND 10-K RUN IS TWO HOURS, 35 MINUTES. DYSON SO LOOKS FORWARD TO HIS SPORTS ACTIVITIES THAT "IF I DON'T EXERCISE FOR TWO OR THREE DAYS, I GET AWFUL CRABBY."







WAYNE HUIZENGA

BLOCKBUSTER ENTERTAINMENT

EVEN OFF-HOURS, WAYNE HUIZENGA IS NO STRANGER TO BLOCKBUSTER EXPANSION. HE BEGAN COLLECTING CARS ONLY IN 1987, BUT HE QUICKLY FILLED HIS FOUR-CAR GARAGE WITH A '37 PACKARD, A '64 ROLLS-ROYCE, A '90 BENTLEY, AND A '37 ROLLS P1 CONVERTIBLE, HIS FAVOR- [illegible]IGHT). NOW, WITH [illegible] BUILDINGS, [illegible] SCOUTING [illegible] AND AUC- [illegible] MANY CAR BUFFS, HUIZENGA LIK[illegible] HIS TREAS[illegible] NOT RESTORIN[illegible]M.

[illegible]LSON/BLACK STAR [illegible] (BOTTOM)

JOHN WALTER

R. R. DONNELLEY

TIME IS EXTRAORDINARILY IMPORTANT TO JOHN WALTER: WITHOUT IT, THERE WOULD BE NO TIMEPIECES, AND THAT WOULD CUT A BIG CHUNK OUT OF HIS LIFE. FOR 21 YEARS, HE HAS BEEN BUYING CLOCKS, IN MANY SHAPES AND SIZES, FROM MANY COUNTRIES AND ERAS. AT LEAST 30 HANG IN HIS HOME; ANOTHER 10 OR SO ARE IN STORAGE OR UNDER REPAIR. "I'M NOT BUYING SOMETHING THAT JUST TELLS YOU WHAT TIME IT IS," HE DECLARES. "I'M BUYING SOMETHING THAT LETS YOU FOLLOW HISTORY."

WALTER SEARCHES FOR HIS QUARRY AT A HANDFUL OF RELIABLE CLOCK DEALERS, MAINLY IN THE NORTHEAST. HE ALSO SCOURS SHOPS FOR PARTS: AS A TRUE CLOCK DEVOTEE, HE MAKES HIS OWN REPAIRS.

KNOWLEDGE OF A CLOCK'S INNER WORKINGS, PLUS COURSES IN CLOCK COLLECTING, HAVE GIVEN WALTER A SHARP EYE FOR A DEAL. HE'S PROUDEST OF THE 29-JEWEL SHIP'S CHRONOMETER HE BOUGHT FOR SEVERAL HUNDRED DOLLARS THAT WAS "UNDERVALUED BY A MAGNITUDE OF 10." ANOTHER JEWEL IS A WELSH SCHOOL CLOCK FORMERLY OWNED BY FOUR-TIME ILLINOIS GOVERNOR JAMES R. THOMPSON. WALTER BOUGHT IT ONLY AFTER THE DEALER GOT THOMPSON TO SIGN IT.

WALTER CLEARLY GETS A KICK OUT OF HIS TREASURES. HE ALWAYS WINDS THEM HIMSELF, A TASK THAT TAKES ABOUT 15 MINUTES. AND WHEN THAT'S DONE, THERE'S LITTLE DOUBT IN THE WALTER HOMESTEAD WHEN ONE HOUR CHANGES INTO THE NEXT ONE. "IF YOU'RE TALKING ON THE PHONE," WALTER CLAIMS, "PEOPLE ASK ME, 'DID A LOCOMOTIVE JUST GO THROUGH YOUR FAMILY ROOM?' "

LEONARD LAVIN

ALBERTO-CULVER

LEONARD LAVIN'S IDEA OF FUN IS THE PROVERBIAL DAY AT THE RACES, ESPECIALLY WHEN ONE OF HIS HORSES IS IN THE RUNNING. OR, BETTER YET, WINNING. OVER THE YEARS, LAVIN HAS PRODUCED 23 TOP STAKES WINNERS.

BREEDING HORSES SEEMS TO BE IN LAVIN'S BLOOD. HIS FATHER AND UNCLE RAISED THOROUGHBREDS, TOO. AS A TYKE, LAVIN WOULD ATTEND RACES WITH HIS DAD. HE AND HIS WIFE, BERNICE, OWN MORE THAN 100 HORSES, MOSTLY STABLED AT THEIR 327-ACRE GLEN HILL FARM IN OCALA, FLA.

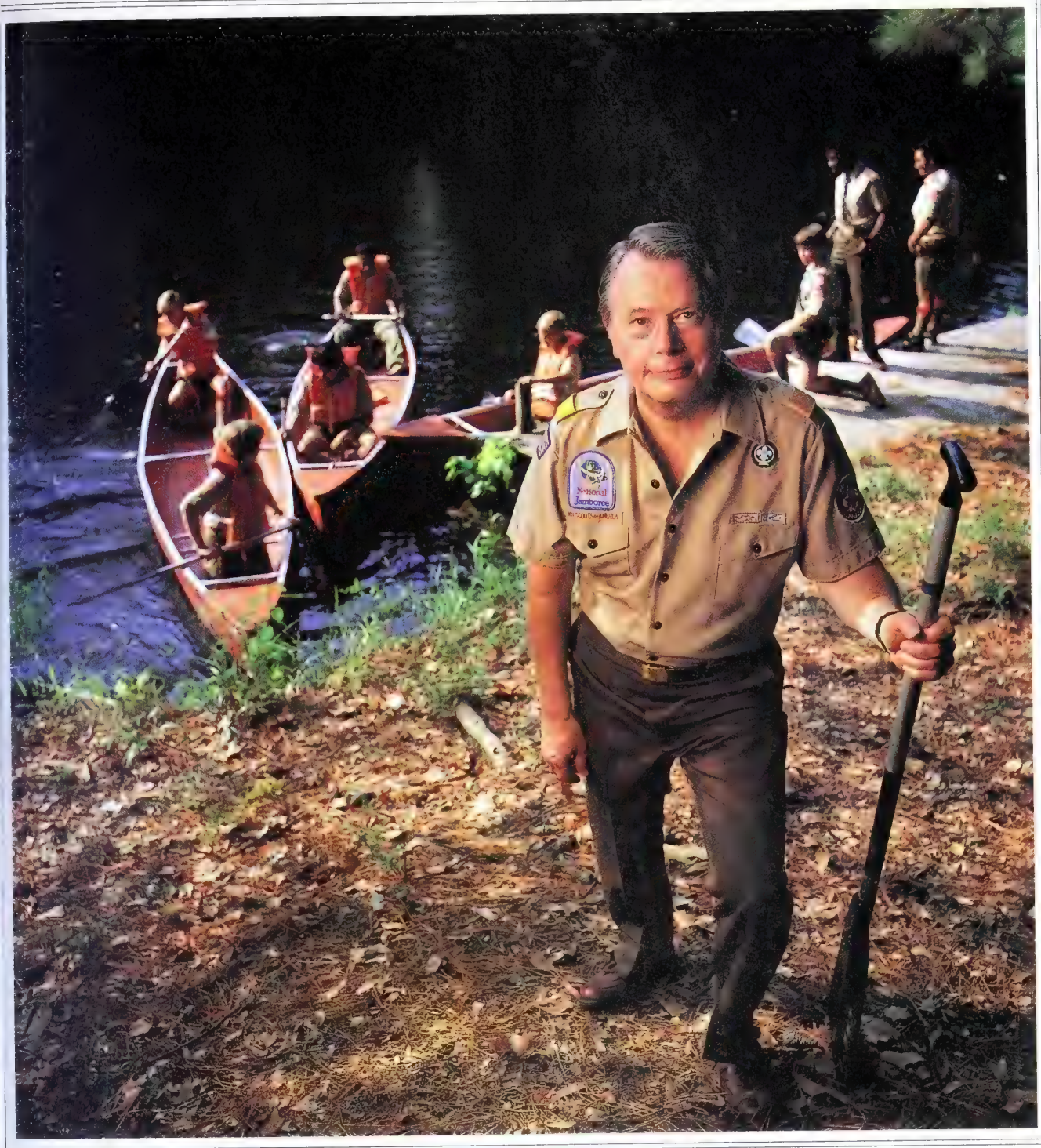
LAST YEAR, THE LAVINS ENDOWED THEIR PASSION WITH A SERIOUS NEW PURPOSE: THEY DECIDED TO FUND A YEAR-LONG STUDY OF INJURIES AND HEALTH PROBLEMS SUFFERED BY JOCKIES. THE PROJECT, SPURRED BY THE FALL OF A JOCKEY WHO ONCE RODE FOR THEIR FARM, IS SURVEYING 3,500 JOCKEYS AND EXERCISERS.

RICHARD MAHONEY

MONSANTO

IT'S NOT SURPRISING THAT A CEREBRAL TYPE LIKE RICHARD MAHONEY WOULD PICK A SERIOUS HOBBY: COLLECTING WINSTON CHURCHILL MEMORABILIA. MAHONEY ADMIRES THE STATESMAN'S PERCEPTION, HIS OFTEN-INSPIRATIONAL COMMUNICATIONS [illegible], AND HIS "WILL-[illegible] PLUNGE [illegible] YEARS, [illegible] BOUGHT TO [illegible] PICTING THE [illegible] OF HIS YOU[illegible] PAINTINGS BY HIM, AND A NUMBERED REPLICA OF A DESK HE ONCE USED. HIS BIGGEST QUEST, THOUGH, IS FOR CHURCHILL PHOTOGRAPHS. NOT JUST ANY PHOTOGRAPH, BUT PRINTS MADE FROM ORIGINAL NEGATIVES, HIGHLY PRIZED FOR THEIR "AUTHENTICITY." MAHONEY KEEPS HIS FAVORITES ON VIEW IN A SPECIAL ROOM AT HOME.

MAHONEY IS ALSO QUICK TO DISPLAY A COLLECTOR'S FERVOR: HE OWNS "DOZENS AND DOZENS" OF PRINTS, BUT WON'T REVEAL HIS SOURCES, FOR COMPETITIVE REASONS. HE NATURALLY WANTS MORE—ESPECIALLY PRE-WAR ITEMS.



HAROLD HOOK

AMERICAN GENERAL

IT'S 1945, AND A BOY OF 14 IS LOOKING FOR A WAY TO EMULATE TWO BROTHERS SERVING IN THE WAR. THE ONLY PLACE HAROLD HOOK COULD JOIN UP WAS THE BOY SCOUTS. ATTRACTED BY THE MILITARY-STYLE DRILLS, STRESS ON SURVIVAL SKILLS, AND SNAZZY UNIFORM, HE ENDED UP AN EAGLE SCOUT.

FAST-FORWARD TO THE EARLY '70S, WHEN HOOK'S TWO SONS DROPPED OUT OF THE SCOUTS, NOW PASSE. HOOK RECALLED HOW THE SCOUTS INFLUENCED HIM: " 'TRUSTWORTHY' AND 'LOYAL' ARE STILL CODE WORDS IN MY LIFE." SENSING VALUES GONE AWRY, HOOK REJOINED. "IT WAS A LOW POINT IN THE PROGRAM . . . BUT I KNEW WE COULD BRING IT BACK."

HOOK'S FIRST JOB WAS FIXING A LOCAL TROOP'S FINANCIAL MESS. SOON, HE WAS ON THE NATIONAL BOARD. IN 1988, HE WAS NAMED PRESIDENT OF THE BOY SCOUTS OF AMERICA, WHERE HE FOCUSED ON DEVELOPING VIDEOS TO TRAIN SCOUTMASTERS AND ON RECRUITING.

HOOK JUST RELINQUISHED THAT POST, BUT REMAINS ON THE BOARD. "YOU HAVE TO GIVE BACK," HE SAYS. AND, THOUGH HIS SONS NEVER DID REJOIN THE ORGANIZATION, YOU CAN STILL FIND DAD AT SCOUT OUTINGS.

PHOTOGRAPH: STEVE PUMPHREY

Human Electronics–Technology for the Benefit of Mankind:

How a picture tube made in the U.S.A. is helping Americans enjoy a brighter picture of life.

A new state-of-the-art television picture tube factory opens in Troy, Ohio. Business people see it as yet another example of Matsushita's ever growing commitment to manufacture and develop a broad range of products in America. To the people of Troy, like those in towns across America, Matsushita's U.S. operation represents a whole lot more. A chance to enjoy a better picture of life.

Enthusiasm. Energy. An abundance of new ideas. This is what it takes to succeed. This is what Matsushita Electric finds in Troy, Ohio; Santa Barbara, California; Peachtree City, Georgia–and in all its U.S. factories and R&D facilities.

MADE IN AMERICA

Matsushita has 12 manufacturing plants and 6 R&D facilities in the U.S. There are over 100 sales and service centers. The combination of American "know-how" and Matsushita support has created some extraordinary results. From major breakthroughs in digital communications to computer systems that will teach hearing-impaired children to speak. Today, Matsushita's U.S. operation employs over 10,000 Americans who are developing and manufacturing new products made specifically for the U.S. market. And many of Matsushita's American factories are even building products for export to Japan and other countries.

The business community sees Matsushita's U.S. operation as a success. But even more importantly, so do the local communities that are now home to Matsushita.

COMMUNITY UNITY

Matsushita also helps build strong communities. Towns with caring, concerned individuals. To encourage this, Matsushita donates equipment to local organizations, provides facilities for town use, and has set up a $10 million fund to help improve education in primary and secondary schools. Matsushita even endows professorships at Harvard and MIT.

HUMAN ELECTRONICS

Building factories and R&D centers that help people build better lives is just one example of what Matsushita Electric means by the term Human Electronics. Every day Matsushita dedicates its vast resources to researching, developing, and marketing products that make life richer, safer, and more comfortable. In the U.S. these products are sold under the brand names Panasonic, Technics, and Quasar. In 1989, Matsushita's worldwide consolidated sales volume surpassed $37.7 billion. All a direct result of a single-minded philosophy: Don't create technology for technology's sake, but for man's sake.

MATSUSHITA ELECTRIC

PANASONIC TECHNICS QUASAR

SCOTT McNEALY

SUN MICROSYSTEMS

YOU CAN CREDIT SCOTT McNEALY'S ORIGINS FOR GETTING HIM REACQUAINTED WITH ICE HOCKEY. AS A DETROIT HIGH SCHOOLER, HE WAS JUST A "SLIGHTLY ABOVE AVERAGE" PLAYER. HE HUNG UP HIS SKATES AT 21. BUT WHEN, ON A FRIEND'S SUGGESTION, HE CHECKED OUT A SILICON VALLEY LEAGUE TWO YEARS AGO, HE REJOICED—AND REJOINED: "IT'S GREAT TO BE OUT HERE IN CALIFORNIA; YOU DON'T HAVE TO BE ANY GOOD TO BE GOOD."

RELISHING THE RELEASE FROM THE FRANTIC LIFE OF A HIGH-TECH CEO, McNEALY NOW PLAYS CENTER TWO EVENINGS A WEEK. "I'M LIKE A KID AGAIN," HE SAYS, EVEN ARRANGING HIS WORK AROUND HIS GAME SCHEDULE AS MUCH AS HE CAN. MANY TIMES, HE'S PLAYED A LATE-NIGHT GAME, THEN—WITHOUT EVEN SHOWERING—CAUGHT A RED-EYE TO THE EAST COAST OR EUROPE. McNEALY CONCEDES HE'S USUALLY SORE, SOMEWHERE, THE MORNING AFTER A GAME: HE FIGURES HE'S ONLY GOT FIVE MORE YEARS TO PLAY. AND THEN WHAT? THERE'S ALWAYS GOLF.

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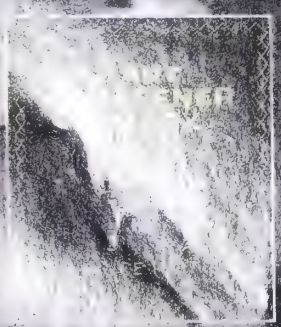
"Sometimes the right suit is the best defense."

Donald McGarrah, Attorney at Law
Wildman, Harrold, Allen & Dixon



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BusinessWeek

The CORPORATE ELITE

The Chief Executives of the 1000 most valuable publicly held U.S. companies

AN ALPHABETICAL INDEX OF THE 1000 CHIEF EXECUTIVE OFFICERS, AND THE PAGE ON WHICH THE ENTRY FOR EACH APPEARS, BEGINS ON PAGE 277. FOOTNOTES APPEAR ON PAGE 292.

ILLUSTRATION: DENNIS ORTIZ LOPEZ

THE CORPORATE ELITE

ABBOTT LABORATORIES

DUANE L. BURNHAM

Abbott Park, Ill. *708-937-6100*

SALES: *$5.4 bil.* PROFITS: *$860 mil.*

MARKET VALUE: *$17.4 bil.*

▶ Born 1/22/42, Excelsior, Minn.; BS (business admin., 1963), MBA (1972), U. of Minn. Career path–finance/accounting; tenure–8 years, CEO 9 months. Compensation: 1989 salary & bonus, $850,000[1]; ownership, 159,000 direct, 1,000 indirect shares. ▶ Caught in a bitter battle with ex-CEO Robert Schoellhorn, removed by the board in December, he's now firmly in charge. His challenge: rebuild morale, polish a tarnished image, keep infant formula and diagnostic businesses growing. There's little time to unwind over gin-rummy.

ACUSON

SAMUEL H. MASLAK

Mountain View, Calif. *415-969-9112*

SALES: *$227 mil.* PROFITS: *$38 mil.*

MARKET VALUE: *$1 bil.*

▶ Born 7/23/48, Washington, D. C.; SB, SM (1971), ScD (elect. eng., 1975), MIT. Career path–engineering/technical; tenure–9 years, CEO 9 years. Compensation: 1989 salary & bonus, $500,000; ownership, 1,346,000 direct, 11,000 indirect shares. ▶ His improvements on medical ultrasound imaging create boom: The better the images, the more uses for them. Competitors are gaining, so he plows 10% of sales back into R&D. And would a carmaker try this? He'll upgrade existing units to level of newest model. Likes to tinker in lab.

ADOBE RESOURCES

STANLEY R. RAWN JR.

New York, N. Y. *212-758-8110*

SALES: *$157 mil.* LOSS: *$13 mil.*

MARKET VALUE: *$338 mil.*

▶ Born 2/3/28, Duluth, Minn.; BS (chemistry, 1952), MS (chem. eng., 1953), Calif. Inst. of Tech. Career path–engineering/technical; tenure–6 years, CEO 5 years. Compensation: 1989 salary & bonus, $580,000; ownership, 175,000 direct, 1,000 indirect shares. ▶ Avid tennis player having a rough time at the net. Fell into the red last year thanks to weak prices, resetting of major gas contract. Plans to keep boosting capital spending, expand overseas operations. Goals: double domestic oil and gas production by year-end, get firmly back into the black in 1991.

ADOBE SYSTEMS

JOHN EDWARD WARNOCK

Mountain View, Calif. *415-961-4400*

SALES: *$121 mil.* PROFITS: *$34 mil.*

MARKET VALUE: *$516 mil.*

▶ Born 10/6/40, Salt Lake City, Utah; BS (mathematics, philosophy, 1961), MS (1964), PhD (elect. eng., 1969), U. of Utah. Career path–engineering/technical; tenure–8 years, CEO 2 years. Compensation: 1989 salary & bonus, $321,000; ownership, 561,000 shares. ▶ His laser-printer software is industry standard, launching desktop publishing. But slow going in version for computer screens. Faced real threat last year, when Apple, Microsoft teamed up against him. But IBM chose his software, and Apple seems to be returning. Watercolorist.

ADVANCED MICRO DEVICES

WALTER JEREMIAH SANDERS III

Sunnyvale, Calif. *408-732-2400*

SALES: *$1.1 bil.* PROFITS: *$46 mil.*

MARKET VALUE: *$439 mil.*

▶ Born 9/12/36, Chicago, Ill.; BS (elect. eng.), U. of Ill., 1958. Career path–engineering/technical; tenure–21 years, CEO 21 years. Compensation: 1989 salary & bonus, $873,000; ownership, 309,000 shares. ▶ His once-hot chipmaker is in a slump. Lost $6 million in the second quarter. Immediate problem is pricing. Other trouble is Intel's decision not to license his company to make its hot new 386 chip. "Jerry" investing heavily in manufacturing, forging Japanese-style relationships with his customers, suing Intel. Critics say he's not at the office enough.

ADVANCED TELECOMMUNICATIONS

STEPHEN E. RAVILLE

Atlanta, Ga. *404-261-5885*

SALES: *$333 mil.* PROFITS: *$25 mil.*

MARKET VALUE: *$352 mil.*

▶ Born 5/12/47, Manhattan, Kan.; BA (econ.), U. of Va., 1969; JD, U. of Ga. Law, 1972; LLM (taxation), Emory, 1978. Career path–legal; tenure–7 years, CEO 5 years. Compensation: 1989 salary & bonus, $482,000; ownership, 368,000 shares. ▶ Saltwater fisherman landed Florida-based Galesi Telecommunications, pushing his long-distance carrier to No. 2 in the state. But his success (fiscal 1990 revenues surged 29%) could attract a suitor—perhaps US Sprint. But he's still looking to buy other carriers in the Southeast and Southwest.

AETNA LIFE & CASUALTY

JAMES THOMAS LYNN

Hartford, Conn. *203-273-0123*

SALES: *$19.7 bil.* PROFITS: *$639 mil.*

MARKET VALUE: *$4.8 bil.*

▶ Born 2/27/27, Cleveland, Ohio; AB (econ., polit. sci.), Western Reserve, 1948; LLB, Harvard Law, 1951. Career path–legal; tenure–6 years, CEO 6 years. Compensation: [illegible] salary & bonus, $1,052,000; ownership, 28,000 shares. ▶ Easygoing CEO gets high marks for steering insurance company through tough times. Conservative portfolio, with few junk [illegible] little problem real estate, among industry's strongest. [illegible]zing to improve profits. Not afraid to wrangle with regu[illegible] An angler, he also makes a mean chili and a light soufflé.

AFFILIATED PUBLICATIONS

WILLIAM O. TAYLOR

Boston, Mass. *617-929-2000*

SALES: *$542 mil.* PROFITS: *$44 mil.*

MARKET VALUE: *$630 mil.*

▶ Born 7/19/32, Boston, Mass.; AB (European history), Harvard, 1954. Career path–finance/accounting; tenure–34 years, CEO 9 years. Compensation: 1989 salary & bonus, $453,000; ownership, 146,000 direct, 106,000 indirect shares. Didn't get into Harvard B-school, so opted for family biz. ▶ "Clean-desk" boss likes lean style, quick decisions. Flagship *Boston Globe* getting killed by New England economy. Yet he's expanding, investing in zoned editions and equipment. Bought *Adweek*'s publisher, adding to stable of specialty magazines.

1952.

1957.

1963.

1969.

1979.

1985.

1990.

You always come back to the basics.

AHMANSON (H. F.)

[illegible] DEIHL

Los Angeles, Calif. *213-955-4200*

SALES: *$4.4 bil.* PROFITS: *$194 mil.*

MARKET VALUE: *$1.7 bil.*

▶ Born 9/9/28, Whittier, Calif.; AB (econ.), Whittier, 1949. Career path–merchandising/marketing, finance/accounting; tenure–31 years, CEO 7 years. Compensation: 1989 salary & bonus, $1,262,000; ownership, 39,000 direct, 985,000 indirect shares. ▶ Conservative, hard-working boss keeps nation's largest S&L group growing. Posted record savings increase, loan originations. One of first to abandon industrial, commercial real estate lending, return to home mortgage roots. Already a big factor on New York thrift market, he's bought another institution.

AIR PRODUCTS & CHEMICALS

[illegible] E. DREW

Allentown, Pa. *215-481-4911*

SALES: *$2.6 bil.* PROFITS: *$222 mil.*

MARKET VALUE: *$2.5 bil.*

▶ Born 4/16/27, Worcester, Mass.; BS (mech. eng., 1950), MBA (1957), Lehigh. Career path–management, sales; tenure–38 years, CEO 4 years. Compensation: 1989 salary & bonus, $1,019,000; ownership, 51,000 direct, 80,000 indirect shares. ▶ A tennis buff, he lived in Wimbledon for a decade running European industrial gas operations. Making good progress on plan to accelerate growth: Sales up 36% since '86. But industrial gas and chemicals–company's core businesses–may hit the skids as economy weakens. Rising stars: environmental, energy systems.

AIRBORNE FREIGHT

ROBERT STANLEY CLINE

Seattle, Wash. *206-285-4600*

SALES: *$950 mil.* PROFITS: *$19 mil.*

MARKET VALUE: *$328 mil.*

▶ Born 7/17/37, Urbana, Ill.; AB (eng.), Dartmouth, 1959. Career path–finance/accounting; tenure–22 years, CEO 6 years. Compensation: 1989 salary & bonus, $473,000; ownership, 107,000 shares. ▶ Tough. Survived fierce price wars as head of third-ranked (after FedEx, UPS), fastest-growing express package shipper. Lures corporate customers with bargain prices, next-day service. Landed big IBM account in 1987 by bidding below cost, using volume to build more business. Weak in international, where he operates via joint ventures. Civic activist.

ALBANY INTERNATIONAL

J. SPENCER STANDISH

Albany, N. Y. *518-445-2200*

SALES: *$505 mil.* PROFITS: *$44 mil.*

MARKET VALUE: *$315 mil.*

▶ Born 4/17/25, Albany, N. Y.; BS (business & eng. admin.), MIT, 1945. Career path–engineering/technical, production/manufacturing; tenure–38 years, CEO 7 years. Compensation: 1989 salary & bonus, $449,000; ownership, 5,000 direct, 4,706,000 indirect shares. ▶ Duplicate bridge player with a trump card in Europe. Heavy capital spending there should help him cash in on 1992 integration, economic growth. Still, problems in Brazil, Mexico likely to cause 1990 profit decline. Makes fabrics for paper industry, high-tech materials for aerospace market.

ALBERTO-CULVER

[illegible] B.

Melrose Park, Ill. *708-450-3000*

SALES: *$717 mil.* PROFITS: *$29 mil.*

MARKET VALUE: *$594 mil.*

▶ Born 10/29/19, Chicago, Ill.; BA, U. of Wash., 1940. Career path–merchandising/marketing; tenure–36 years, CEO 36 years. Compensation: 1989 salary & bonus, $1,025,000; ownership, 6,820,000 direct, 769,000 indirect shares. ▶ Famous for VO5, but it and other hair-care potions now account for only a dab of total sales–40% come from beauty supply shops. British revenues have doubled in three years, and now he's expanding in Europe. Spending more time on thoroughbreds so daughter, son-in-law can gain experience running business.

ALBERTSON'S

WARREN EARL MCCAIN

Boise, Idaho *208-385-6200*

SALES: *$7.4 bil.* PROFITS: *$197 mil.*

MARKET VALUE: *$4.4 bil.*

▶ Born 12/17/25, Logan, Kan.; attended Ill. Inst. of Tech., Ore. State. Career path–merchandising/marketing; tenure–31 years, CEO 14 years. Compensation: 1989 salary & bonus, $1,058,000; ownership, 678,000 shares. ▶ Methodical, diligent manager of food and drug chain. Margins run about twice industry average, thanks to meticulous cost control, ownership of distribution centers. He has big growth plans: 230 new stores in West and Southwest by 1994. But he may need to get even more aggressive to invest swelling cash flow.

ALCO STANDARD

B. MUNDT

Valley Forge, Pa. *215-296-8000*

SALES: *$4.1 bil.* PROFITS: *$116 mil.*

MARKET VALUE: *$1.2 bil.*

▶ Born 8/10/28, Appleton, Wis.; BS (busi- Wis. State, 1953. Career path–merchandising/marketing; 0 years, CEO 10 years. Compensation: 1989 salary & bo- 4,000; ownership, 196,000 direct, 16,000 indirect shares. clocks, decoys, classic cars–and distribution compa- ating income's up 21%, though net's now slumping as s are used up. To boost EPS, he bought back 16% of stock... y cash helps him keep buying paper distributors, now . Pushing into Canada, office equipment.

ALDUS

[illegible]

Seattle, Wash. *206-622-5500*

SALES: *$88 mil.* PROFITS: *$15 mil.*

MARKET VALUE: *$361 mil.*

▶ Born 11/17/47, Medford, Ore.; BS (business), U. of Ore., 1970; MA (journalism), U. of Minn., 1975. Career path–entrepreneur; tenure–6 years, CEO 6 years. Compensation: 1989 salary & bonus, $155,000; ownership, 3,343,000 shares. ▶ Ex-newspaperman, father of desktop publishing. His six-year-old Pagemaker still has 70% of Apple market. Made acquisition to avoid label of one-product company. After delays, his updated software is out. He's become planning guru as seasoned outsiders take charge. Perfectionist–with time now for rafting, hiking.

ALEXANDER & ALEXANDER SERVICES

TINSLEY H. IRVIN

New York, N. Y. *212-840-8500*

SALES: *$1.2 bil.* PROFITS: *$59 mil.*

MARKET VALUE: *$842 mil.*

▶ Born 5/30/33, Cornelia, Ga.; BBA (insurance), Ga. State, 1955. Career path–insurance; tenure–37 years, CEO 3 years. Compensation: 1989 salary & bonus, $652,000; ownership, 48,000 direct, 47,000 indirect shares. ▶ Some success in energizing No. 2 insurance broker, though earnings remain flat. Property-casualty premium levels seem to be stabilizing, and that's good news, since his commissions are pared by plummeting prices. Pushing international, focusing on core business–which he knows, as hands-on ex-broker himself.

ALEXANDER & BALDWIN

ROBERT JOHN PFEIFFER

Honolulu, Hawaii *808-525-6611*

SALES: *$620 mil.* PROFITS: *$203 mil.*

MARKET VALUE: *$1.2 bil.*

▶ Born 3/7/20, Suva, Fiji. Career path–operations; tenure–30 years, CEO 11 years. Compensation: 1989 salary & bonus, $1,467,000[1]; ownership, 187,000 direct, 2,000 indirect shares. ▶ Island-hops at controls of own plane, Imua (Hawaiian for "Forward"), and hopes state economy keeps heading that way. Pumping $200 million-plus into Matson Shipping unit to build fleet, push into container leasing. Agriculture side is feeling high costs, weak sugar prices. Real estate quiet after last year's $101 million Wailea hotel development sale.

ALLEGHANY

FRED M. KIRBY

New York, N. Y. *212-752-1356*

SALES: *$1.1 bil.* PROFITS: *$55 mil.*

MARKET VALUE: *$525 mil.*

▶ Born 11/23/19, Wilkes-Barre, Pa.; AB, Lafayette, 1942. Career path–management; tenure–32 years, CEO 23 years. Compensation: 1989 salary & bonus, $977,000; ownership, 145,000 direct, 672,000 indirect shares. ▶ Foiled by state insurance commissioners, he dropped last year's plan to buy 20% of St. Paul Cos. Still, his insurance and financial services firm made $30 million pre-tax on its 10% stake. Last year's acquisition of a Sacramento thrift is paying off, too. He likes fox hunting and vacationing at a rustic summer camp in the Adirondacks.

ALLEGHENY LUDLUM

ROBERT PETER BOZZONE

Pittsburgh, Pa. *412-394-2800*

SALES: *$1.2 bil.* PROFITS: *$134 mil.*

MARKET VALUE: *$779 mil.*

▶ Born 8/9/33, Glens Falls, N. Y.; BS (metallurgy), RPI, 1955. Career path–production/manufacturing; tenure–35 years, CEO 5 months. Compensation: 1989 salary & bonus, $532,000; ownership, 3,070,000 direct, 150,000 indirect shares. ▶ New chief knows company "from the molecules up." He'll be hardpressed to beat performance of predecessor, who left one of nation's best-managed companies. New man, an operations whiz, will depend on R&D, alert marketing to keep specialty steelmaker strong. On vacations, he scuba dives, or skis.

ALLEGHENY POWER SYSTEM

KLAUS BERGMAN

New York, N. Y. *212-752-2121*

SALES: *$2.3 bil.* PROFITS: *$213 mil.*

MARKET VALUE: *$1.9 bil.*

▶ Born 5/24/31, Nuremberg, Germany; AB (pre-law), Columbia, 1953; LLB, Columbia Law, 1955. Career path–legal; tenure–19 years, CEO 5 years. Compensation: 1989 salary & bonus, $439,000; ownership, 3,000 shares.[8] ▶ The address is Manhattan, the markets are Pennsylvania, Ohio, West Virginia, Virginia, Maryland. Prospect of clean-air legislation continues to be his most important issue–utility gets 90% of power from coal-fired plants. Wants a rate increase for West Penn Power subsidiary. Financials sound, though not spectacular.

ALLERGAN

GAVIN S. HERBERT

Irvine, Calif. *714-752-4500*

SALES: *$807 mil.* PROFITS: *$57 mil.*

MARKET VALUE: *$1 bil.*

▶ Born 3/26/32, Los Angeles, Calif.; BS (business), USC, 1954. Career path–management; tenure–35 years, CEO 13 years. Compensation: 1989 salary & bonus, $402,000; ownership, 248,000 direct, 189,000 indirect shares. ▶ Self-proclaimed "head gardener" at eye-care manufacturer and SmithKline spinoff, he also owns a Newport Beach plant center. At the office, he's had to prune 400 employees and cut costs as growth slows in the lens market. Future focus: Overseas growth, especially in Eastern Europe. Helped landscape Nixon library.

ALLIED-SIGNAL

EDWARD L. HENNESSY JR.

Morristown, N. J. *201-455-2000*

SALES: *$11.9 bil.* PROFITS: *$528 mil.*

MARKET VALUE: *$4.3 bil.*

▶ Born 3/22/28, Boston, Mass.; BS, Fairleigh Dickinson, 1955. Career path–finance/accounting, production/manufacturing; tenure–11 years, CEO 11 years. Compensation: 1989 salary & bonus, $1,675,000; ownership, 121,000 shares. ▶ A demanding boss who manages for the long term–the very long term. Stock is basically dormant despite three years of restructuring, cost cuts, asset sales, stock buybacks at aerospace, automotive and engineered materials company. Should reap around $1 billion when 40%-owned Union Texas Petroleum is sold.

ALLTEL

JOE T. FORD

Hudson, Ohio *216-650-7000*

SALES: *$1.2 bil.* PROFITS: *$154 mil.*

MARKET VALUE: *$2.1 bil.*

▶ Born 6/24/37, Conway, Ark.; BSBA, U. of Ark., 1959. Career path–finance/accounting; tenure–31 years, CEO 3 years. Compensation: 1989 salary & bonus, $725,000; ownership, 214,000 direct, 28,000 indirect shares. ▶ Runs the nation's No. 6 independent phone company, but he's been diversifying. This year, snapped up his biggest buy, with a $500 million stock deal for Systematics, a supplier of software and computer services for financial institutions. It's a fast-growing market, and that's more than you can say for local phone business.

FOOTNOTES APPEAR ON PAGE 292

ALLWASTE

RAYMOND L. NELSON JR.

Houston, Tex. *713-623-8777*

SALES: *$166 mil.* PROFITS: *$12 mil.*

MARKET VALUE: *$315 mil.*

▶ Born 11/13/38, Jennings, La.; BS (business, finance), McNeese State, 1963. Career path–industrial mgmt.; tenure–13 years, CEO 13 years. Compensation: 1989 salary & bonus, $257,000; ownership, 891,000 direct, 343,000 indirect shares. ▶ Call him "Bubba." Founded company to remove industrial waste with vacuum equipment, operating his one truck himself. With financial whiz and co-CEO Clayton Trier, made flurry of niche acquisitions–asbestos removal, tank cleaning, glass recycling. Lean staff. Growth slowed, stock price off recently.

ALZA

MARTIN STEPHEN GERSTEL

Palo Alto, Calif. *415-494-5000*

SALES: *$82 mil.* PROFITS: *$19 mil.*

MARKET VALUE: *$1.4 bil.*

▶ Born 6/26/41, Norwalk, Conn.; BS (eng.), Yale, 1964; MBA, Stanford, 1968. Career path–finance/accounting; tenure–22 years, CEO 3 years. Compensation: 1989 salary & bonus, $324,000; ownership, 61,000 direct, 41,000 indirect shares. ▶ If only he could make his proprietary timed-release technology work faster at FDA. Hypertension-fighting Procardia XL (sold by Pfizer) is a hit. Other potential winners await approval. Among them: an anti-asthmatic and an antibiotic fiber for gum disease. When he isn't prodding regulators, he enjoys tennis, jogging.

AMAX

ALLEN BORN

New York, N. Y. *212-856-4200*

SALES: *$3.9 bil.* PROFITS: *$360 mil.*

MARKET VALUE: *$2.2 bil.*

▶ Born 7/4/33, Durango, Colo.; BS (metallurgy, geology), U. of Tex. at El Paso, 1958. Career path–mining; tenure–23 years, CEO 5 years. Compensation: 1989 salary & bonus, $1,185,000; ownership, 4,000 shares. ▶ Metallurgist with folksy manner revived once-sick mining giant by selling losers, concentrating on aluminum–at just the right time. Now, aluminum prices are weak, so he's shopping for acquisitions (some say to avoid being acquired). Not easy: Missed out in bids for Falconbridge (nickel, copper), Peabody (coal).

AMAX GOLD

TIMOTHY J. HADDON

Golden, Colo. *303-273-0600*

SALES: *$122 mil.* PROFITS: *$33 mil.*

MARKET VALUE: *$945 mil.*

▶ Born 11/26/48, Harare, Zimbabwe, Africa; BS (mining eng.), Colo. Sch. of Mines, 1970. Career path–engineering/technical, finance/accounting; tenure–14 years, CEO 1 year. Compensation: 1989 salary & bonus, $160,000[2]; ownership, 1,000 shares.[7] ▶ Like other producers, he's expanding reserves. Last year, he managed a 31% increase (to 4 million oz.). Further boost: Picked up U. S. Gold's 40% minority stake in his Hayden Hill project in northern California. In Nevada, he's deep drilling Sleeper mine to see if deposits are economically recoverable.

ALUMINUM CO. OF AMERICA

PAUL H. O'NEILL

Pittsburgh, Pa. *412-553-4545*

SALES: *$10.9 bil.* PROFITS: *$945 mil.*

MARKET VALUE: *$5.6 bil.*

▶ BORN 12/4/35, ST. LOUIS, MO.; BS (ECON.), FRESNO STATE, 1960; MPA (PUBLIC ADMIN.), IND., 1966. CAREER PATH – ECONOMICS; TENURE – 3 YEARS, CEO 3 YEARS. COMPENSATION: 1989 SALARY & BONUS, $1,307,000; OWNERSHIP, 1,000 SHARES. ▶ HE THANKS "A LITTLE IRISH LUCK" FOR HIS SUCCESS, AND HE'S NOT JUST BEING MODEST: SURGING ALUMINUM PRICES IN THE STRONGEST MARKET IN A DECADE HAVE KEPT PROFITS FAT FOR THE WORLD'S BIGGEST PRODUCER. NOW COMES HIS FIRST REAL TEST. DEMAND DIPPED IN MID-1989 AS AUTO AND CONSTRUCTION MARKETS SOFTENED. AND WHILE ORDERS REBOUNDED LAST SPRING, ANALYSTS THINK EARNINGS MAY FALL SHORT OF LAST YEAR. ONE REASON: HIS INNOVATIVE PRICING SCHEME – TYING QUOTES TO QUALITY, NOT PRIMARY ALUMINUM COSTS – [illegible]MED AS MUCH AS $100 MILLION [illegible] SALES. OLD WASHINGTON HAND [illegible] HIS CONNECTIONS THERE.

THE CORPORATE ELITE

AMDAHL

JOHN CLARK LEWIS JR.

Sunnyvale, Calif. *408-746-6000*

SALES: *$2.1 bil.* PROFITS: *$153 mil.*

MARKET VALUE: *$1.4 bil.*

▶ Born 10/15/35, Livingston, Mont.; BS (accounting), Calif. State at Fresno, 1957. Career path–merchandising/marketing; tenure–13 years, CEO 7 years. Compensation: 1989 salary & bonus, $865,000; ownership, 78,000 shares. ▶ Doing battle with Big Blue. IBM slashed prices on the mainframes he competes against, squeezing his margins last year. But pricing pressure may be easing this year, and he's pared manufacturing costs. Staying independent: Part-owner Fujitsu passed up on option to buy rest. He's readying new mainframes for 1991.

AMERADA HESS

LEON HESS

New York, N. Y. *212-997-8500*

SALES: *$5.6 bil.* PROFITS: *$476 mil.*

MARKET VALUE: *$4.2 bil.*

▶ Born 3/13/14, Asbury Park, N. J. Career path–mchdsing./mkting., entrepreneur; tenure–44 years, CEO 25 years. Compensation: 1989 salary & bonus, $300,000; ownership, 8,826,000 direct, 1,624,000 indirect shares. ▶ Publicity-shy boss also owns New York Jets. Oil company whiz at exploration, production, not so good at refining. Service station-convenience store build-up, reserve acquisitions in Gulf of Mexico, North Sea, Canada pushed debt to 45% of capital. Runup in crude prices could soften expected big earnings drop this year.

AMERICAN BRANDS

WILLIAM J. ALLEY

Old Greenwich, Conn. *203-698-5000*

SALES: *$7.3 bil.* PROFITS: *$631 mil.*

MARKET VALUE: *$6.5 bil.*

▶ Born 12/27/29, Vernon, Tex.; BBA, U. of Okla., 1951; JD, U. of Okla. Law, 1954. Career path–insurance; tenure–12 years, CEO 3 years. Compensation: 1989 salary & bonus, $1,542,000; ownership, 22,000 shares. ▶ Sells Lucky Strike, Jim Beam–and Swingline staples. Expanding his office-products lines, but alcohol and tobacco still provide most of profits. To keep cash flowing, he's raising prices and looking for overseas markets. Booted five management directors off his board, so now outsiders are in the majority.

AMERICAN CYANAMID

GEORGE J. SELLA JR.

Wayne, N. J. *201-831-2000*

SALES: *$4.8 bil.* PROFITS: *$292 mil.*

MARKET VALUE: *$4.9 bil.*

▶ Born 9/29/28, West New York, N. J.; BS (chem. eng.), Princeton, 1950; MBA, Harvard, 1952. Career path–engineering/technical; tenure–36 years, CEO 8 years. Compensation: 1989 salary & bonus, $1,063,000; ownership, 36,000 direct, 1,000 indirect shares. ▶ Former All-American knows what he wants, and right now he's focusing on core medical, agricultural, specialty chemicals lines. Big asset sell-off, including Shulton toiletries and household products. Using proceeds to hike R&D effort, especially for Lederle Labs' drugs.

AMERICAN ELECTRIC POWER

W. S. WHITE JR.

Columbus, Ohio *614-223-1000*

SALES: *$5.1 bil.* PROFITS: *$692 mil.*

MARKET VALUE: *$4.9 bil.*

▶ Born 12/17/26, Chesapeake, Va.; BS (elect. eng.), Va. Polytechnic Inst., 1948; MS (indust. mgmt.), MIT, 1958. Career path–engineering/technical; tenure–42 years, CEO 15 years. Compensation: 1989 salary & bonus, $656,000; ownership, 21,000 shares. ▶ Front-line fighter in clean-air battle. No wonder. His Midwest power plants make him the nation's leading coal burner. Wants Congress to wait for results of mandated $500 million study rather than require expensive scrubbers. His proposal: Evaluate cheaper technologies such as that at his Tidd plant.

AMERICAN EXPRESS

JAMES D. ROBINSON III

New York, N. Y. *212-640-2000*

SALES: *$25 bil.* PROFITS: *$1.2 bil.*

MARKET VALUE: *$10 bil.*

▶ Born 11/19/35, Atlanta, Ga.; BS (eng.), Ga. Tech, 1957; MBA, Harvard, 1961. Career path–finance/accounting; tenure–20 years, CEO 13 years. Compensation: 1989 salary & bonus, $2,600,000; ownership, 509,000 shares. ▶ Image-conscious boss is no longer "the Teflon executive." No. 1 problem: Shearson brokerage unit. After trying to sell it, he wound up buying the whole thing, ousting CEO Peter Cohen, infusing millions in fresh capital. Fortunately, AmEx's travel and card businesses are strong. He's testing new businesses, e.g. legal services.

AMERICAN FAMILY

DANIEL P. AMOS

Columbus, Ga. *404-323-3431*

SALES: *$2.4 bil.* PROFITS: *$81 mil.*

MARKET VALUE: *$1.2 bil.*

▶ Born 8/13/51, Pensacola, Fla.; BS (risk mgmt./insurance), U. of Ga., 1973. Career path–insurance; tenure–17 years, CEO 2 months. Compensation: 1989 salary & bonus, $446,000; ownership, 183,000 direct, 405,000 indirect shares. ▶ Succeeds founder-uncle John Amos, who died in August. Company known for selling cancer insurance in Japan, and his biggest chore will be ongoing revamp of that product. With new wrinkles (outpatient coverage, payments for diagnosis), premiums rise 35%. He must make sure sales don't slump.

AMERICAN GENERAL

HAROLD SWANSON HOOK

Houston, Tex. *713-522-1111*

SALES: *$4.2 bil.* PROFITS: *$413 mil.*

MARKET VALUE: *$5 bil.*

▶ Born 10/10/31, Kansas City, Mo.; BS (business admin., 1953), MA (accounting, 1954), U. of Mo. Career path–business admin., accounting; tenure–15 years, CEO 12 years. Compensation: 1989 salary & bonus, $1,234,000; ownership, 88,000 direct, 69,000 indirect shares. ▶ Won proxy fight to fend off Torchmark–then stunned shareholders by putting this insurer up for sale. Underperforming consumer finance business, a $685 million acquisition from Manny Hanny, is finally beginning to take hold, strengthening earnings.

THE CORPORATE ELITE

AMERICAN GREETINGS

MORRY WEISS

Cleveland, Ohio *216-252-7300*

SALES: *$1.3 bil.* PROFITS: *$72 mil.*

MARKET VALUE: *$878 mil.*

▶ Born 5/1/40, Humenne, Czech.; BA (econ.), Case Western Reserve, 1964. Career path–marketing; tenure–29 years, CEO 3 years. Compensation: 1989 salary & bonus, $555,000; ownership, 383,000 direct, 92,000 indirect shares.[9] ▶ Merits a thank-you card from shareholders for its earnings recovery. Known for lucrative roster of licensed characters, including Care Bears, Ziggie. Also introduced new line of children's cards to strengthen specialty markets. Just appointed first woman director in 84 years, Estée Lauder's Jeanette Wagner.

AMERICAN HEALTH PROPERTIES

WALTER JAMES MCNERNEY

Los Angeles, Calif. *213-477-9399*

SALES: *$47 mil.* PROFITS: *$21 mil.*

MARKET VALUE: *$323 mil.*

▶ Born 6/8/25, New Haven, Conn.; BS (business), Yale, 1947; MHA (health admin.), U. of Minn., 1950. Career path–mgmt., teaching; tenure–3 years, CEO 3 years. Compensation: 1989 salary & bonus, $80,000; ownership, 1,000 shares. ▶ Health care statesman. Ex-president of national Blue Cross/Blue Shield, also professor of health policy at Northwestern. His REIT was recently spun off by American Medical Holdings. Owns or is building 18 hospitals leased to operators. Negotiating to buy psychiatric centers from ex-parent. He's a golfer and sailor.

AMERICAN HOME PRODUCTS

JOHN R. STAFFORD

New York, N. Y. *212-878-5000*

SALES: *$6.7 bil.* PROFITS: *$1.1 bil.*

MARKET VALUE: *$14.4 bil.*

▶ Born 10/24/37, Harrisburg, Pa.; AB (English), Dickinson, 1959; LLB, George Washington Law, 1962. Career path–legal, general mgmt.; tenure–20 years, CEO 4 years. Compensation: 1989 salary & bonus, $1,580,000; ownership, 80,000 direct, 10,000 indirect shares. ▶ Hands-on manager finally snagged A. H. Robins to create nation's third biggest drug company. Price: $3.2 billion. Most of cost will shelter operating income because of Robins' huge Dalkon Shield liabilities. Continues to move toward OTC, prescription drugs.

AMERICAN INTERNATIONAL GROUP

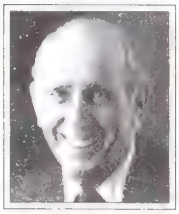
MAURICE RAYMOND GREENBERG

New York, N. Y. *212-770-7000*

SALES: *$14.5 bil.* PROFITS: *$1.4 bil.*

MARKET VALUE: *$13.8 bil.*

▶ Born 5/4/25, New York, N. Y.; attended U. of Miami; LLB, N. Y. Law, 1950. Career path–insurance; tenure–30 years, CEO 23 years. Compensation: 1989 salary & bonus, $1,570,000; ownership, 4,431,000 direct, 89,000 indirect shares. ▶ One of the insurance industry's sharpest, toughest bosses. More than 50% of his income comes from outside the U. S. Now, he's diversifying: Bought International Lease Finance, an aircraft leasor, moving into commodity trading. Also acquired electrical contractor Fishbach to avoid losses on its surety business.



AMERICAN MEDICAL HOLDINGS

HARRY J. GRAY

Dallas, Tex. *214-360-6300*

SALES: *$2.1 bil.* LOSS: *$69.2 mil.*

MARKET VALUE: *$326 mil.*

▶ Born 11/18/19, Milledgeville Crossroads, Ga.; BS (marketing, journalism, 1941), MS (1947), U. of Ill. Career path–production/manufacturing; tenure–11 months, CEO 11 months. Compensation: 1989 salary & bonus, NA[6]; ownership, NA. ▶ He built United Technologies, came out of retirement to lead group that acquired this hospital chain. Not an empire-builder now: Hopes to have 40 hospitals at yearend, vs. 69 when he took over. Sold foreign holdings, moved offices from showy Beverly Hills to cheaper Dallas. Active in health-related charities.

AMERICAN NATIONAL INSURANCE

ORSON C. CLAY

Galveston, Tex. *409-763-4661*

SALES: *$1 bil.* PROFITS: *$101 mil.*

MARKET VALUE: *$972 mil.*

▶ Born 7/26/30, Bountiful, Utah; BS (business), Brigham Young, 1955; MBA, Harvard, 1959. Career path–finance/accounting; tenure–20 years, CEO 12 years. Compensation: 1989 salary & bonus, $558,893; ownership, 25,000 direct shares. ▶ Likes to scuba dive in the Bahamas. Had a somewhat soggy '89, as most operations performed poorly. But new products, higher premiums, cost cuts are boosting operating profits. Property & casualty in black after loss-plagued year. Rethinking auto business in the wake of legislative changes.

AMERICAN PETROFINA

RONALD WAYNE HADDOCK

Dallas, Tex. *214-750-2400*

SALES: *$3 bil.* PROFITS: *$96 mil.*

MARKET VALUE: *$1.1 bil.*

▶ Born 7/29/40, St. Elmo, Ill.; BS (mech. eng.), Purdue, 1963. Career path–engineering/technical, refining; tenure–4 years, CEO 2 years. Compensation: 1989 salary & bonus, $402,000; ownership, NA.[8] ▶ Still on the acquisition trail after integrating the 1988 purchase of Tenneco oil and gas properties. Likely areas for expansion: petrochemicals, natural gas. Some problems persist, including a drop in net income and production snags at two refineries. Needs $150 million for modernization. Bright spot: spiffed-up, high-volume stations.

AMERICAN PRESIDENT

ERUCE SEATON

Oakland, Calif. *415-272-8000*

SALES: *$2.3 bil.* PROFITS: *$11 mil.*

MARKET VALUE: *$301 mil.*

▶ Born 4/1/25, Philadelphia, Pa.; BS (business admin.), UCLA, 1949. Career path–finance, marketing; tenure–13 years, CEO 7 years. Compensation: 1989 salary & bonus, $588,000; ownership, 109,000 shares. ▶ Near retirement, he's picked industry outsider (ex-CEO of Lucky Stores, Leslie Salt) as heir-apparent. Needs all the management help he can get. Slumping trans-Pacific industry led to a $1 million first-half loss. Downturn hit as company finished expanding shipping capacity. Investor Sam Zell owns about 20%, keeping hands off so far.

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AMERICAN TELEPHONE & TELEGRAPH

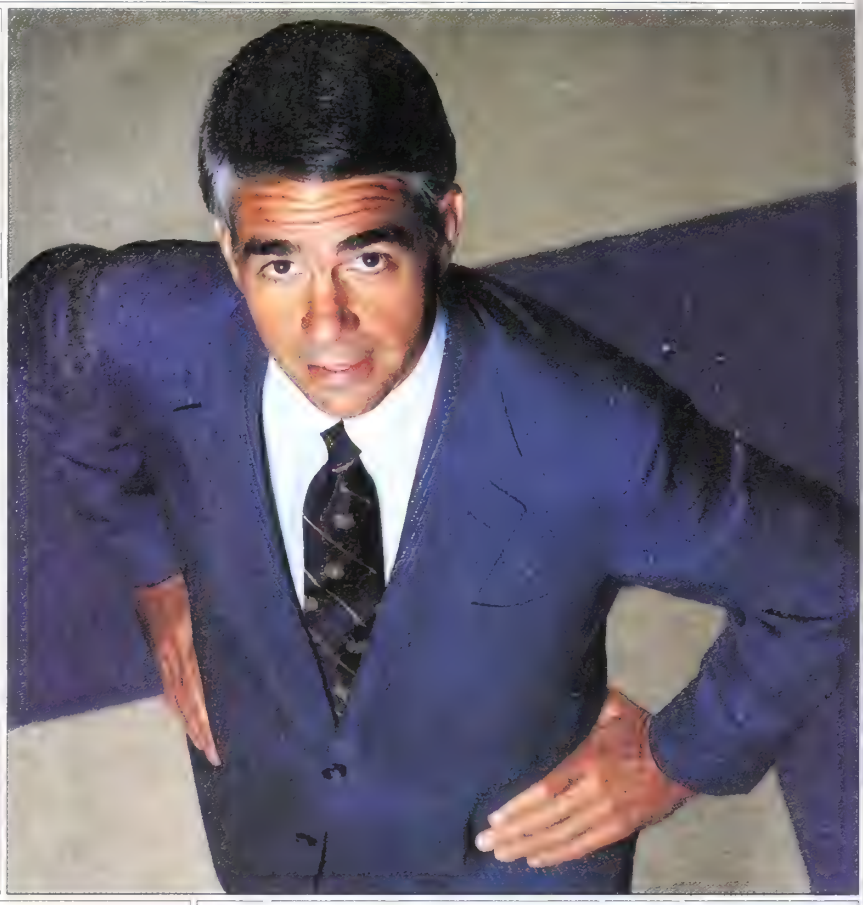
[redacted]

New York, N. Y. *212-605-5500*

SALES: *$51 bil.* PROFITS: *$2.7 bil.*

MARKET VALUE: *$35.3 bil.*

▶ BORN 1/25/35, JOPLIN, MO.; BA (POLIT. SCI.), WABASH, 1957. CAREER PATH—OPERATIONS; TENURE—33 YEARS, CEO 2 YEARS. COMPENSATION: 1989 SALARY & BONUS, $1,744,000; OWNERSHIP, 41,000 SHARES. ▶ COOL, CORRECT MANAGER'S BEEN HAVING A GOOD, BUT NOT GREAT YEAR, AND ORIGINAL GOAL OF EXCEEDING 1989'S RECORD EARNINGS BY 10% TO 12% SEEMS FAR AWAY. BUT HE'S BEEN STEMMING EROSION OF COMPANY'S HUGE LONG-DISTANCE SHARE AS REGULATORS LET HIM PRICE SERVICE MORE FLEXIBLY TO AIM THE BARGAIN RATES AT HIS MOST PRICE-SENSITIVE BUYERS. BUT JAN. 15 SERVICE OUTAGE FROM SOFTWARE BUG HURTS REPUTATION FOR RELIABILITY—A REPUTATION HEAVILY MARKETED. PRICE WARS SQUEEZE OFFICE EQUIPMENT. ONE NICE SURPRISE: QUICK SUCCESS OF UNIVERSAL CREDIT CARD. RACKED UP A COOL 2 MILLION CARDHOLDERS BY MIDYEAR, THOUGH MARGINS ARE THIN.



AMERICAN STORES

JONATHAN L. SCOTT

Salt Lake City, Utah *801-539-0112*

SALES: *$22 bil.* PROFITS: *$118 mil.*

MARKET VALUE: *$2.2 bil.*

▶ Born 2/2/30, Nampa, Idaho; BA, Coll. of Idaho, 1951. Career path–operations; tenure–2 years, CEO 2 years. Compensation: 1989 salary & bonus, $1,076,000; ownership, 1,000 shares. ▶ Tough luck: U. S. Supreme Court ruled California could block merger of huge Lucky Stores acquisition into his Alpha Beta chain. So he'll have to sell 151 Alpha, nine Lucky stores, use proceeds to pay down debt. He'll also sell Buttrey food-drug division. But his chain, founded by Skaggs family, is still nation's largest food and drug retailer.

AMERICAN TV & COMMUNICATIONS

JOSEPH J. COLLINS

Stamford, Conn. *203-328-0600*

SALES: *$973 mil.* PROFITS: *$95 mil.*

MARKET VALUE: *$3.2 bil.*

▶ Born 7/27/44, Troy, N. Y.; AB (intl. relations), Brown, 1966; MBA, Harvard, 1972. Career path–marketing; tenure–18 years, CEO 2 years. Compensation: 1989 salary & bonus, $1,349,000; ownership, 38,000 shares.[7] ▶ Relocation from Denver made it easier for him to indulge passion for boating. Big cable operator, 82%-owned by Time Warner, now has Warner unit's big cable business, too. Acquisitions, including Centel Cable TV in Florida, have swelled debt to hefty 66% of capital. Ex-HBO boss still looks for beachhead abroad.

AMERICAN WATER WORKS

JAMES V. LAFRANKIE

Voorhees, N. J. *609-346-8200*

SALES: *$528 mil.* PROFITS: *$48 mil.*

MARKET VALUE: *$442 mil.*

▶ Born 3/26/27, Elizabeth, Pa.; BS (business [redacted] Georgetown, 1964. Career path–operations; tenure–43 years, CEO 7 years. Compensation: 1989 salary & bonus, $376,000; ownership, 7,000 shares.[7] ▶ When it rains, he worries—and this has been a wet year in many of the 20 states he serves. So consumption by lawn sprinklers is down, and capital spending is up because of tighter water quality standards. Affable, he's on a first-name basis with many employees. He and his wife swung hammers at a recent charity renovation.

AMERITECH

WILLIAM LEE WEISS

Chicago, Ill. *312-750-5000*

SALES: *$10.2 bil.* PROFITS: *$1.2 bil.*

MARKET VALUE: *$14.5 bil.*

▶ Born 5/21/29, Big Run, Pa.; BS (indust. eng.), Penn. State, 1951. Career path–engineering/technical; tenure–7 years, CEO 7 years. Compensation: 1989 salary & bonus, $1,305,000; ownership, 4,000 direct, 30,000 indirect shares. ▶ Serving Rust Bowl with most-local of Baby Bells, he's finally branching out. With Bell Atlantic, he's paying $2.4 billion to buy New Zealand's phone company. Also scouring Europe, Latin America for deals to use his expertise in fast-growing areas. Covets information services, a business he's barred from entering.

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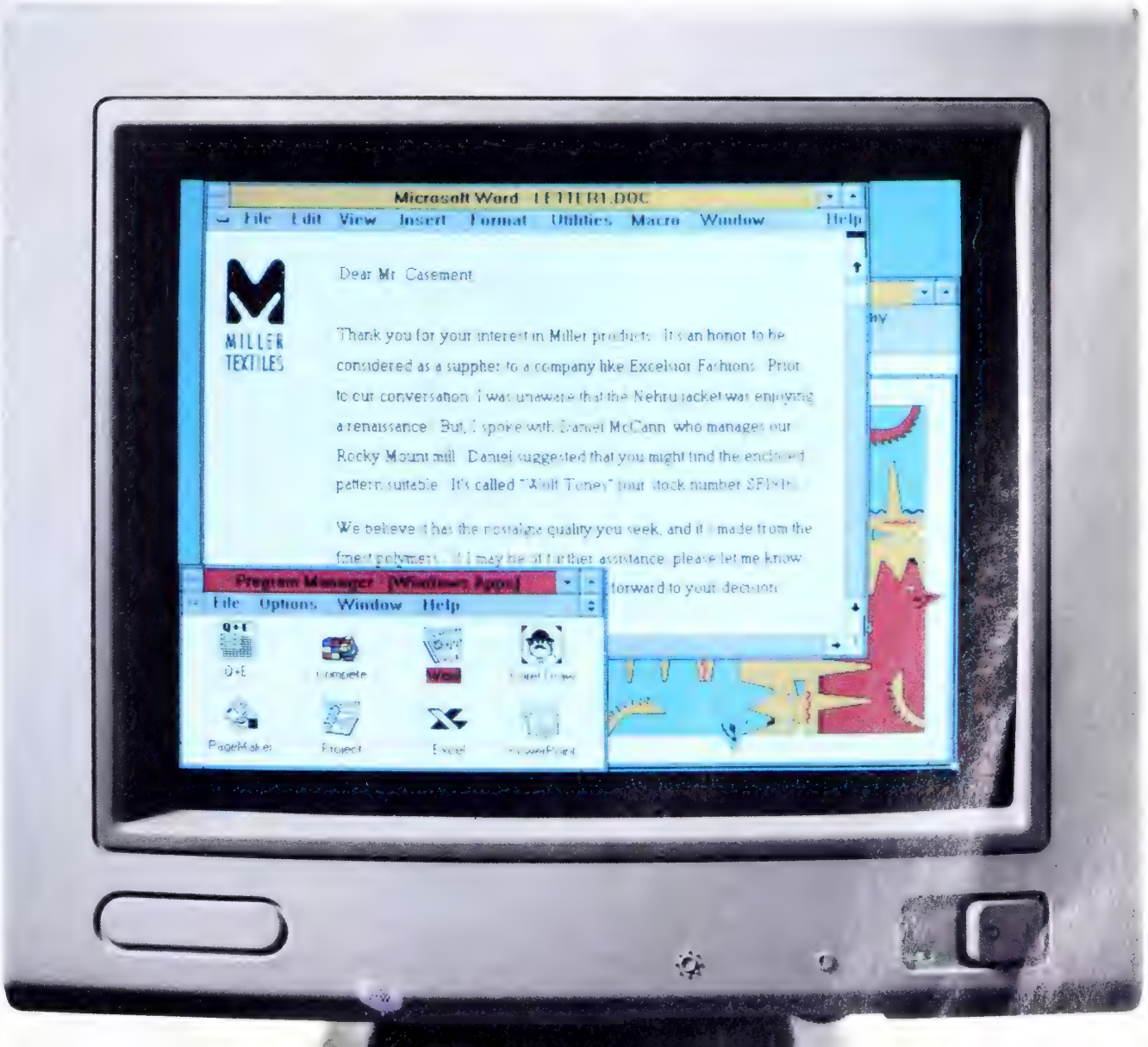

AMERITRUST

CRAIG R. SMITH

Cleveland, Ohio 216-737-5000

SALES: *$1.2 bil.* PROFITS: *$116 mil.*

MARKET VALUE: *$523 mil.*

▶ Born 5/30/25, Cleveland, Ohio; BS (mech. eng.), Case Inst. of Tech, 1946. Career path–mgmt., sales; tenure–2 months, CEO 2 months. Compensation: 1989 salary & bonus, NA; ownership, 16,000 shares. ▶ Board member, former Warner & Swasey chairman took interim post when CEO Jerry Jarrett resigned. Under pressure from regulators, bank delayed reporting $52 million first-quarter loss caused by $140 million in problem real estate, leveraged buyout loans. Best bet to take over: James Rode, 42, currently COO.

AMETEK

WALTER E. BLANKLEY

Paoli, Pa. 215-647-2121

SALES: *$588 mil.* PROFITS: *$38 mil.*

MARKET VALUE: *$459 mil.*

▶ Born 9/23/35, Philadelphia, Pa.; BSME, Princeton, 1957. Career path–sales, engineering; tenure–30 years, CEO 6 months. Compensation: 1989 salary & bonus, $263,000; ownership, 49,000 shares. ▶ Energetic new boss wants to reestablish badly eroded shareholder value. But manufacturer of industrial and military machinery remains heavily indebted. Company recently pleaded guilty to overbilling Navy, agreed to $5.2 million in fines. Recently bought Italy-based vacuum motor-maker. On weekends, plays golf with his wife.

AMGEN

GORDON M. BINDER

Thousand Oaks, Calif. 805-499-5725

SALES: *$190 mil.* PROFITS: *$19 mil.*

MARKET VALUE: *$1.6 bil.*

▶ Born 9/4/35, St. Louis, Mo.; BS (elect. eng.), Purdue, 1957; MBA, Harvard, 1962. Career path–finance/accounting; tenure–8 years, CEO 2 years. Compensation: 1989 salary & bonus, $360,000; ownership, 143,000 shares. ▶ A biotech success story. First-year sales of his anti-anemia drug Epogen topped $190 million, and it's used by more than 70% of dialysis patients. Now, he must ward off competitors, broaden product line. Second offering, which stimulates white-cell production, should be out soon. Enjoys skiing, tennis, and European travel.

AMOCO

RICHARD M. MORROW

Chicago, Ill. 312-856-6111

SALES: *$24 bil.* PROFITS: *$1.6 bil.*

MARKET VALUE: *$28 bil.*

▶ Born 2/27/26, Wheeling, W. Va.; BS (mining & petro. eng.), Ohio State, 1948. Career path–production-manufacturing; tenure–42 years, CEO 7 years. Compensation: 1989 salary & bonus, $1,559,000; ownership, 95,000 direct, 4,000 indirect shares. ▶ Retiring in February, he goes out a hero. Led timely expansion of heavy crude refining. Made $5.1 billion bet on natural gas (buying Dome, Tenneco holdings), which seems likely to pay off. Heir apparent H. Laurance Fuller is waiting. So look for him in trout stream or on ski slopes.

AMP

HAROLD A. MCINNES

Harrisburg, Pa. 717-564-0100

SALES: *$2.8 bil.* PROFITS: *$281 mil.*

MARKET VALUE: *$4.3 bil.*

▶ Born 9/17/27, Groton, Conn.; BS (mech. eng.), MIT, 1949. Career path–production/manufacturing; tenure–25 years, CEO 9 months. Compensation: 1989 salary & bonus, $470,000; ownership, 21,000 shares. ▶ Avid sailor trying to navigate maker of computer connectors through becalmed marketplace. Help from overseas, where 57% of its sales now originate. [illegible]solidating U. S. operations, should gain market share as cus[illegible] cut back on suppliers. Sales and earnings up for first half [illegible] cutting should improve bottom line even more.

AMR

ROBERT L. CRANDALL

Fort Worth, Tex. 817-963-1234

SALES: *$10.5 bil.* PROFITS: *$455 mil.*

MARKET VALUE: *$2.8 bil.*

▶ Born 12/6/35, Westerly, R. I.; BS (business), U. of R. I., 1957; MBA, Wharton, 1960. Career path–merchandising/marketing, finance/accounting; tenure–17 years, CEO 6 years. Compensation: 1989 salary & bonus, $1,067,000; ownership, 32,000 shares. ▶ Committed to aggressive capital spending and foreign expansion plans. But he's grappling with weak traffic, discounting, soaring fuel prices, difficult pilots' union. Focusing relentlessly on costs, he has targeted $100 million in cuts. An odd combo: He's a runner, but he still smokes.

AMSOUTH BANCORPORATION

JOHN W. WOODS

Birmingham, Ala. 205-326-5120

SALES: *$890 mil.* PROFITS: *$63 mil.*

MARKET VALUE: *$448 mil.*

▶ Born 8/18/31, Evanston, Ill.; BA (English), 1954. Career path–banking; tenure–21 years, [illegible]pensation: 1989 salary & bonus, $562,000; own[illegible]es. ▶ Moved south years ago from New York's his bank, which dominates home-state trust Air Force pilot who still flies, he soared into [illegible]ion but is taking lower-altitude approach in [illegible]ght charter there and plans to build fran[illegible]p. Raises Simental cattle on his ranch.

[illegible]ership, 35,[illegible]
Chemical [illegible]
business. [illegible]
Florida via [illegible]

ANADARKO PETROLEUM

ROBERT J. ALLISON JR.

Houston, Tex. 713-875-1101

SALES: *$330 mil.* PROFITS: *$48 mil.*

MARKET VALUE: *$1.8 bil.*

▶ Born 1/29/39, Evanston, Ill.; BS (petro. eng.), U. of Kan., 1960. Career path–engineering/technical; tenure–17 years, CEO 4 years. Compensation: 1989 salary & bonus, $954,000; ownership, 273,000 direct, 11,000 indirect shares. ▶ Runs oil & gas exploration company spun off by pipeliner Panhandle Eastern. Heading overseas–in a big way. Plans to spend $100 milllion during next decade on Sahara venture. Opened office in Algeria, has drilling concessions for area larger than New Jersey. He's a low-key delegator; enjoys golf, hunting, fishing.

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THE CORPORATE ELITE

ANALOG DEVICES

RAY STATA

Norwood, Mass. *617-329-4700*

SALES: *$453 mil.* PROFITS: *$28 mil.*

MARKET VALUE: *$310 mil.*

▶ Born 11/12/34, Coatesville, Pa.; BS (1957), MS (elect. eng., 1958), MIT. Career path–merchandising/marketing, management; tenure–25 years, CEO 20 years. Compensation: 1989 salary & bonus, $447,000; ownership, 1,511,000 direct, 2,103,000 indirect shares. ▶ Quality apostle. Electronics components company's in a rut, with single-digit sales growth, sagging earnings. So he's touting "total quality management" techniques imported from Japan. And heavy R&D costs should begin paying off in profitable new-product introductions.

ANHEUSER-BUSCH

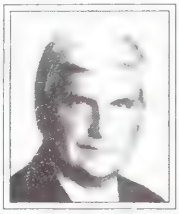
AUGUST A. BUSCH III

St. Louis, Mo. *314-577-2000*

SALES: *$9.5 bil.* PROFITS: *$767 mil.*

MARKET VALUE: *$11.2 bil.*

▶ Born 6/16/37, St. Louis, Mo.; attended U. of Ariz.; brewmaster, Siebel Inst. of Tech., 1961. Career path–operations; tenure–33 years, CEO 11 years. Compensation: 1989 salary & bonus, $1,464,000; ownership, 484,000 direct, 888,000 indirect shares. ▶ Ambitious suds scion spending less time on beer business in order to focus on erasing company's spotty diversification record. Entertainment unit bolstered by last year's deal for Harcourt Brace theme parks. Plans for his $300 million theme park in Spain held up by local dispute.



AON

PATRICK G. RYAN

Chicago, Ill. *312-701-3000*

SALES: *$2.3 bil.* PROFITS: *$232 mil.*

MARKET VALUE: *$2.3 bil.*

▶ Born 5/15/37, Milwaukee, Wis.; BS (business), Northwestern, 1959. Career path–merchandising/marketing, sales; tenure–8 years, CEO 8 years. Compensation: 1989 salary & bonus, $789,000; ownership, 1,964,000 direct, 6,750,000 indirect shares.[8] ▶ While he lacks founder Clement Stone's charisma, steady approach gives shareholders Stone's famous positive mental attitude. Dim results in insurance brokerage balanced by life insurance. Gave up try at buying broker Corroon & Black. Just spent his own money to buy 15% of Chicago Bears.

APACHE

RAYMOND PLANK

Denver, Colo. *303-837-5000*

SALES: *$241 mil.* PROFITS: *$22 mil.*

MARKET VALUE: *$747 mil.*

▶ Born 5/29/22, Minneapolis, Minn.; BA (econ.), Yale, 1944. Career path–oil & gas; tenure–36 years, CEO 12 years. Compensation: 1989 salary & bonus, $491,000; ownership, 211,000 shares.[8] ▶ His past is catching up with him–in a good way. Energy company's mid-1980s investment in Occidental's Midcon properties has paid off handsomely: He's already netted 93% of his $444 million investment and still has 70% of the reserves. Former World War II bomber pilot now concentrating on exploration, acquisition in Anadarko Basin, on Gulf Coast.

APPLE COMPUTER

JOHN SCULLEY

Cupertino, Calif. *408-996-1010*

SALES: *$5.3 bil.* PROFITS: *$454 mil.*

MARKET VALUE: *$4.4 bil.*

▶ Born 4/6/39, New York, N. Y.; BA (arch. design), Brown, 1961; MBA, Wharton, 1963. Career path–merchandising/marketing, administration; tenure–7 years, CEO 7 years. Compensation: 1989 salary & bonus, $2,251,000; ownership, 265,000 shares. ▶ After executive-suite infighting, appointed a chief operating officer to restore order, cut costs. Spends much of his time on R&D. Faces big challenge this fall with rollout of badly needed lower-priced computers and resulting transition to lower margins. After-hours architect.

APPLIED MATERIALS

JAMES C. MORGAN

Santa Clara, Calif. *408-727-5555*

SALES: *$502 mil.* PROFITS: *$51 mil.*

MARKET VALUE: *$451 mil.*

▶ Born 8/27/38, Danville, Ill.; BS (mech. eng., 1962), MBA (finance, 1963), Cornell. Career path–engineering/technical, tenure–14 years, CEO 14 years. Compensation: 1989 salary & bonus, $594,000; ownership, 312,000 shares. ▶ Who says Americans can't compete? This maker of semiconductor production gear sure can–in an industry increasingly dominated by Japan. Outpaces industry in growth; two-thirds of sales come from abroad, including Japan. Off hours, skis slopes accessible only by chopper, campaigns for his wife, a state senator.

ARCHER DANIELS MIDLAND

DWAYNE O. ANDREAS

Decatur, Ill. *217-424-5200*

SALES: *$7.9 bil.* PROFITS: *$425 mil.*

MARKET VALUE: *$6.9 bil.*

▶ Born 3/4/18, Worthington, Minn.; attended [illegible] r path–fin./acctg., administration, operations; ten[illegible] years, CEO 20 years. Compensation: 1989 salary & bonus, $[illegible]; ownership, 5,398,000 direct, 7,619,000 indirect shares. ▶ [illegible] ove to less cyclical businesses is working. European joint ventures are booming; now eyeing Soviet market. Ethanol profits grow; lobbied to keep special tax status, and Clean Air Act also should help. But his name's still the pits in the pits, where he helped feds investigate Chicago commodity trading.

ARCO CHEMICAL

HAROLD A. SORGENTI

Newtown Square, Pa. *215-359-2000*

SALES: *$2.7 bil.* PROFITS: *$405 mil.*

MARKET VALUE: *$3.3 bil.*

▶ Born 5/28/34, New York, N. Y.; BS (chem. eng.), City Coll. of N. Y., 1956; MS (chem. eng.), Ohio State, 1959. Career path–engineering/technical; tenure–31 years, CEO 3 years. Compensation: 1989 salary & bonus, $789,000; ownership, 12,000 shares. ▶ Not a pretty picture for this art collector. Explosion at giant Texas plant killed 17. FTC made him divest one of two chemical lines bought from Union Carbide in $220 million deal, citing antitrust problems. Meanwhile, cyclical downturn in demand for basic chemicals is in full swing, so earnings are off.

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Project, Word or PowerPoint. Or to get information about a seminar near you. The fact is, over half a million people have already switched to Windows version 3.0.

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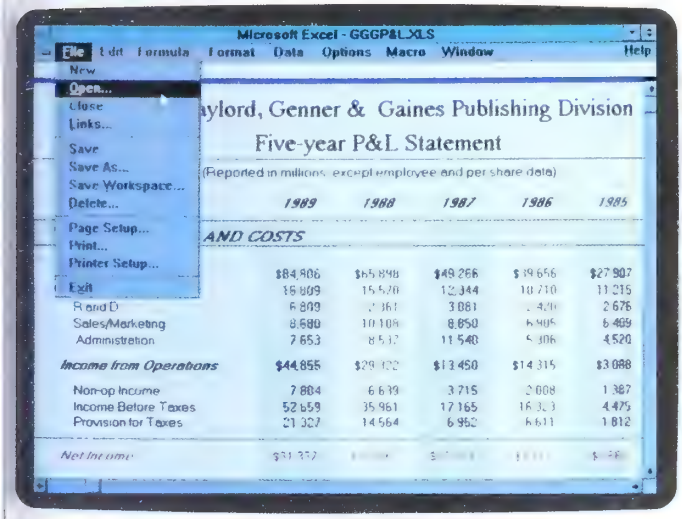

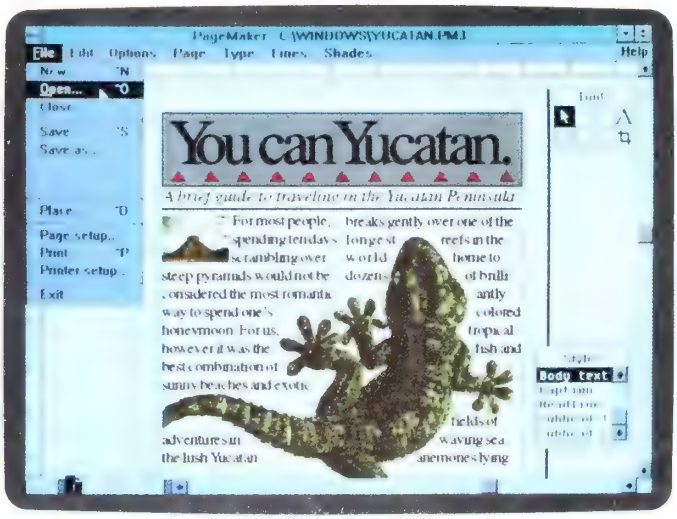

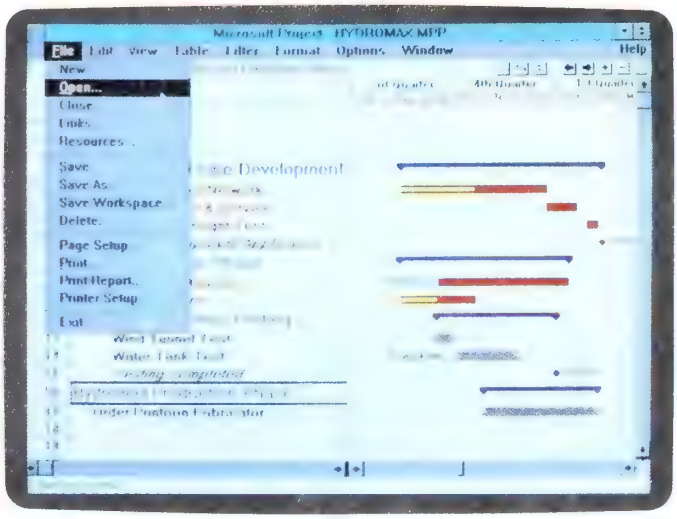

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ARGONAUT GROUP

CHARLES EMIL RINSCH

Los Angeles, Calif. *213-553-0561*

SALES: *$546 mil.* PROFITS: *$82 mil.*

MARKET VALUE: *$648 mil.*

▶ Born 6/28/32, Vincennes, Ind.; BS (business stats.), Ind., 1953; MS (accounting), Butler, 1959; MBA, Stanford, 1960. Career path–finance/accounting; tenure–25 years, CEO 3 years. Compensation: 1989 salary & bonus, $456,000; ownership, 10,000 direct, 5,000 indirect shares. ▶ Runs once-troubled collection of insurance companies that's a Teledyne spinoff. Big strength is workers' comp., where his loss ratio is well below industry average. He credits safety programs, which help avoid accidents. Decentralization has helped cut staff 30% in two years.

ARKLA

THOMAS F. MCLARTY III

Shreveport, La. *318-429-2700*

SALES: *$2.2 bil.* LOSS: *$61 mil.*

MARKET VALUE: *$1.7 bil.*

▶ Born 6/14/46, Hope, Ark.; BS (business), U. of Ark., 1969. Career path–transportation; tenure–7 years, CEO 6 years. Compensation: 1989 salary & bonus, $483,000; ownership, 158,000 shares.[7] ▶ "Mack" added 650,000 customers with recent takeover of Minneapolis-based Diversified Energies. Now serves 2.6 million. Took a $180 million "take-or-pay" write-off last year, but earnings rebounding. Savvy marketer will open refueling station for natural-gas vehicles in Shreveport. Aims for acquisition a year. Plays tennis with son, relaxes with historical novels.

ARKLA EXPLORATION

CARL S. QUINN

Shreveport, La. *318-429-2930*

SALES: *$144 mil.* PROFITS: *$9 mil.*

MARKET VALUE: *$635 mil.*

▶ Born 3/2/31, Moberly, Mo.; BS (business admin.), U. of Mo., 1953. Career path–finance/accounting; tenure–2 years, CEO 1 year. Compensation: 1989 salary & bonus, $465,000; ownership, 22,000 shares. ▶ Puts in long hours at this 85-year-old Arkla Inc. spin-off. No wonder. In six months since going public, company has drilled 37 new wells, 29 successful. While gas business has been depressed, that should change this winter–particularly if oil prices remain high. Has considerably higher gas and oil reserve life than national averages.

ARMCO

ROBERT L. PURDUM

Parsippany, N. J. *201-316-5200*

SALES: *$2.4 bil.* PROFITS: *$210 mil.*

MARKET VALUE: *$586 mil.*

▶ Born 6/15/35, Wilmington, Ohio; BS (civil eng.), Purdue, 1956. Career path–engineering/technical; tenure–28 years, CEO 6 months. Compensation: 1989 salary & bonus, $570,000; ownership, 45,000 direct, 7,000 indirect shares. ▶ Down-to-earth manager a stark contrast to cerebral predecessor. Faces daunting challenges at steelmaker. Carbon steel venture with Kawasaki is losing money, prized specialty steel unit faces brutal competition from rivals with new foreign owners. Worse, trouble in insurance businesses will squeeze earnings for the year.

ARMSTRONG WORLD INDUSTRIES

WILLIAM WHITE ADAMS

Lancaster, Pa. *717-397-0611*

SALES: *$2.5 bil.* PROFITS: *$154 mil.*

MARKET VALUE: *$1.1 bil.*

▶ Born 5/14/34, Dubuque, Iowa; BS (industrial admin.), Iowa State, 1956. Career path–merchandising/marketing; tenure–34 years, CEO 3 years. Compensation: 1989 salary & bonus, $580,000; ownership, 19,000 direct, 1,000 indirect shares. ▶ Sent the raiding Belzbergs packing. His reward: Double-digit sales and earnings gains despite building slump, thanks to strong marketing, European sales. Sold carpet business last year. May do some acquiring of his own in core flooring, tile, insulation lines. Classical music fan, ex-president of Lancaster Symphony.

ARVIN INDUSTRIES

JAMES K. BAKER

Columbus, Ind. *812-379-3000*

SALES: *$1.5 bil.* PROFITS: *$20 mil.*

MARKET VALUE: *$308 mil.*

▶ Born 12/21/31, Wabash, Ind.; AB (physics & math.), DePauw, 1953; MBA, Harvard, 1958. Career path–merchandising/marketing; tenure–35 years, CEO 9 years. Compensation: 1989 salary & bonus, $452,000; ownership, 86,000 direct, 71,000 indirect shares. ▶ Began reorganizing old-line auto-parts maker in 1986. His changes, big Maremont acquisition, finally paying off. First-half revenues up 10%, earnings up 30%. Took strikes last year to win wage cuts. Expects major gains from Europe's tighter emission standards.

ASARCO

RICHARD DE J. OSBORNE

New York, N. Y. *212-510-2000*

SALES: *$2.2 bil.* PROFITS: *$231 mil.*

MARKET VALUE: *$1.1 bil.*

▶ Born 3/19/34, Bronxville, N. Y.; AB (econ.), Princeton, 1956. Career path–finance/accounting; tenure–16 years, CEO 5 years. Compensation: 1989 salary & bonus, $1,058,000; ownership, 28,000 direct, 2,000 indirect shares. ▶ He's revived, restructured this metals producer. But earnings, which hit a record last year, rise and fall based on copper prices and were off slightly in first half. Also produces zinc, silver, and gold. Just bailed out of Canadian asbestos, high-sulphur coal. Wants to add more gold–where 70% of exploration budget is going.

ASHLAND OIL

JOHN RICHARD HALL

Russell, Ky. *606-329-3333*

SALES: *$8.1 bil.* PROFITS: *$86 mil.*

MARKET VALUE: *$1.9 bil.*

▶ Born 11/30/32, Dallas, Tex.; BS (chem. eng.), Vanderbilt, 1955. Career path–production/manufacturing; tenure–33 years, CEO 9 years. Compensation: 1989 salary & bonus, $937,000; ownership, 36,000 shares. ▶ Earnings from refining strong, but lost about 10% of oil supply with Mideast flare-up. He's buying crude on spot market, but long-term replacement's a must. Company can't seem to leave legal woes behind. Jury awarded $10.3 million in damages for emissions to four neighbors of Kentucky refinery–and they're just the first of 275 plaintiffs.

THE CORPORATE ELITE

ASSOCIATED COMMUNICATIONS

JACK NEVILLE BERKMAN

Pittsburgh, Pa. *412-281-1907*

SALES: *$25 mil.* LOSS: *$8 mil.*

MARKET VALUE: *$345 mil.*

▶ Born 2/12/05, London, England; AB (English), U. of Mich., 1926; LLB, Harvard Law, 1929. Career path–finance/accounting, legal, communications; tenure–51 years, CEO 51 years. Compensation: 1989 salary & bonus, $400,000; ownership, 1,899,000 direct, 526,000 indirect shares. ▶ Private man says as little as SEC allows. Stake in cellular networks should keep running up losses for a few more years, until he hits critical subscriber mass. Investors like his big position in cable giant TCI, though regulatory fears have hurt that asset, too.

ATLANTA GAS LIGHT

DAVID R. JONES

Atlanta, Ga. *404-584-4000*

SALES: *$939 mil.* PROFITS: *$42 mil.*

MARKET VALUE: *$622 mil.*

▶ Born 5/22/37, Atlanta, Ga.; BS (indust. mgmt.), Ga. Tech, 1959. Career path–engineering/technical; tenure–30 years, CEO 3 years. Compensation: 1989 salary & bonus, $320,000; ownership, 2,000 shares. ▶ Head of one of country's fastest-growing gas utilities, he's a collegial boss who lets top managers speak for themselves. Georgia's population growth has given him 3%-plus annual customer boost, but that's slowing now. Still, he thinks Clean Air regs, technological advances spell good things for gas in 1990s.

ATLANTIC ENERGY

E. DOUGLAS HUGGARD

Pleasantville, N. J. *609-645-4100*

SALES: *$705 mil.* PROFITS: *$90 mil.*

MARKET VALUE: *$737 mil.*

▶ Born 11/22/33, Wilmington, Del.; BS (1955), MS (mech. eng., 1961), U. of Del. Career path–engineering/technical, production/manufacturing; tenure–35 years, CEO 5 years. Compensation: 1989 salary & bonus, $325,000; ownership, 12,000 shares. ▶ Ex-Navy man got a boost at end of '89 when part-owned Peach Bottom plant came on line. Utility made good in its absence, though, thanks to Atlantic City and South Jersey development boom. Spending heavily on new generating, distributing capacity despite economy. He runs local food bank for indigent.

AUTODESK

ALVAR JAMES GREEN

Sausalito, Calif. *415-332-2344*

SALES: *$179 mil.* PROFITS: *$46 mil.*

MARKET VALUE: *$1.2 bil.*

▶ Born 4/5/46, Peterborough, England; BBA (fin.), Eastern Mich., 1974. Career path–finance/accounting; tenure–6 years, CEO 4 years. Compensation: 1989 salary & bonus, $281,000; ownership, 9,000 shares. ▶ Avid sailor runs tight ship. Has near-monopoly on software for desktop-computer-aided design, with 60% share to No. 2's 8%. But is there life after CAD? He's been having troubles with software to create 3D images, intended to eliminate clay models. And sales scanty from desktop animation package. New versions of both should be out soon.

ATLANTIC RICHFIELD

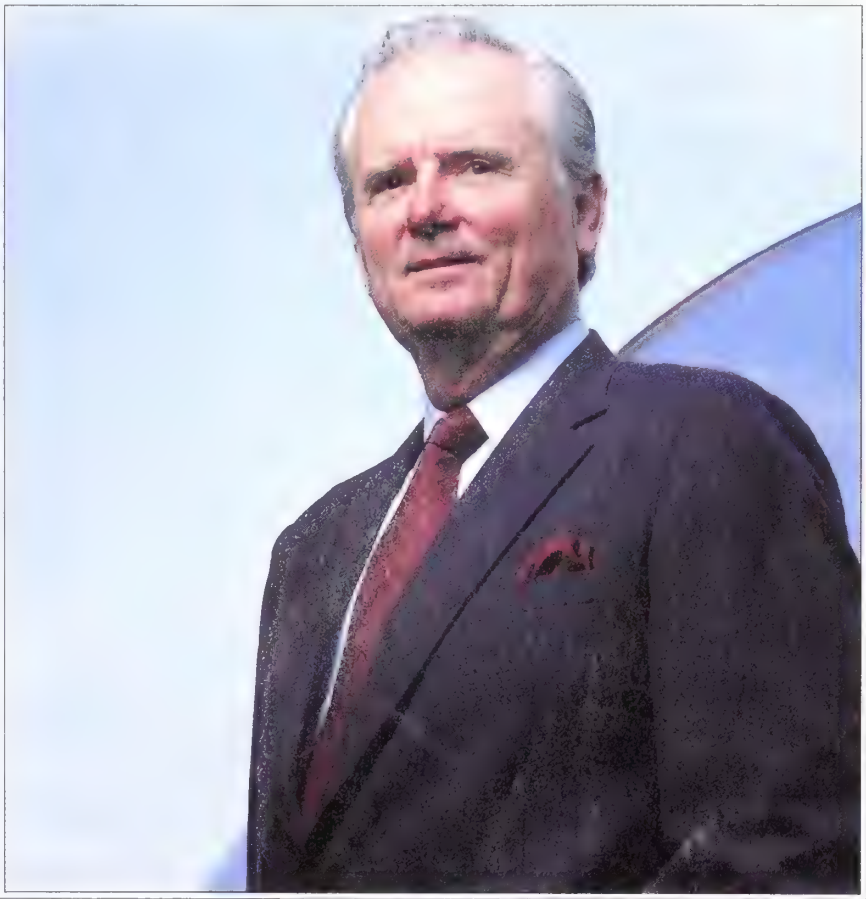
LODWRICK MONROE COOK

Los Angeles, Calif. *213-486-3511*

SALES: *$15.4 bil.* PROFITS: *$2 bil.*

MARKET VALUE: *$21.9 bil.*

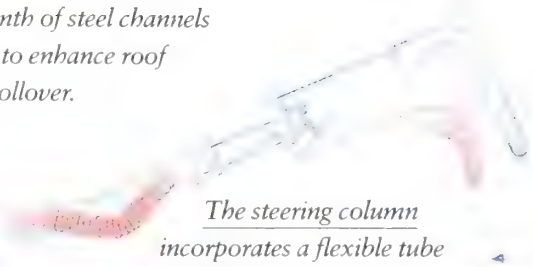
▶ BORN 6/17/28, CASTOR, LA.; BS (MATH, 1950), BS (PETRO. ENG., 1955), LA. STATE; MBA, SMU, 1965. CAREER PATH—MERCHANDISING/MARKETING, PROD./MFG., LABOR RELATIONS; TENURE—34 YEARS, CEO 5 YEARS. COMPENSATION: 1989 SALARY & BONUS, $1,916,000; OWNERSHIP, 50,000 SHARES. ▶ BIG OIL'S BEST MARKETER, "LOD'S" RIDING A WAVE OF POPULARITY FOR BEING FIRST WITH A LOW-EMISSION LEADED FUEL AND HOLDING LINE (BRIEFLY) ON PRICES WHEN IRAQ CRISIS BEGAN. PUSHING INTO INTERNATIONAL MARKETS, SCOUTING FOR ACQUISITIONS WITH NORTH SEA RESERVES, EXPANDING MINIMARKET RETAIL AND GAS-PUMP OUTLETS INTO SPAIN, FAR EAST. GROOMING SUCCESSORS (POSSIBLY CFO RONALD ARNAULT). A MAJOR GOP FUND-RAISER, HE TAKES IN ANGELS GAMES WITH BUSH, GOLFS WITH REAGAN. JUST LOST 21 POUNDS, USING THE JENNY CRAIG DIET.



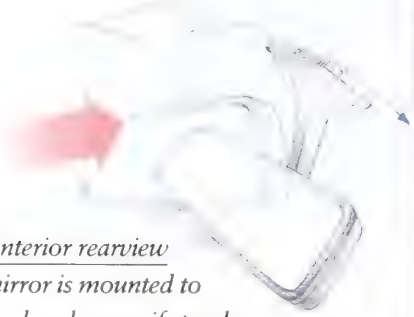
PHOTOGRAPH STRAUS OKITA

The exterior door handle is not a styled flap but a sturdy grip. Its looped shape is meant to permit maximum pulling force should rescue assistance ever be needed.

This sectional cutaway shows the intricate labyrinth of steel channels and box shapes designed to enhance roof rigidity in the event of a rollover.



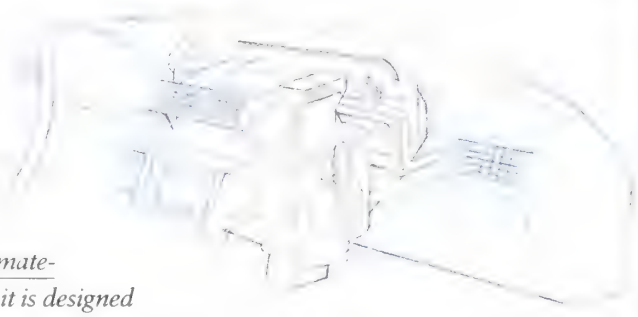
The steering column incorporates a flexible tube designed to deform under the force of a frontal impact, limiting the risk of excessive rearward or upward displacement.



The interior rearview mirror is mounted to break away if struck with moderate force.

A Supplemental Restraint System (SRS) with driver-side air bag has been standard in every Mercedes-Benz since 1985. On many models, the system now includes both driver and front passenger air bags.

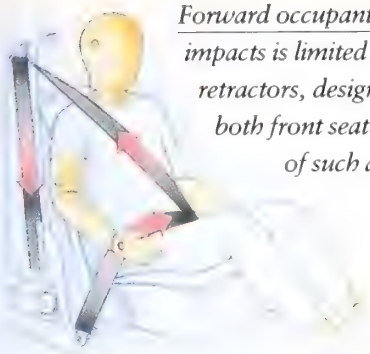
The frontal structure is designed to absorb and channel kinetic energy not only in head-on but also offset frontal impacts—more frequent and more severe. Mercedes-Benz pioneered both the basic energy-absorbing body concept and this offset enhancement.



The climate-control unit is designed to be crushable in a severe impact, minimizing the risk of its being pushed rearward into the passenger area.

Like every interior control and lever, this recessed headlight-control switch is designed and shaped and placed to help reduce the chance of occupant injury in a severe impact.

Mercedes-Benz of N.A., Inc., Montvale, NJ



Forward occupant movement in certain impacts is limited by emergency tensioning retractors, designed to tighten slack in both front seat belts within milliseconds of such an impact.

The spare tire's placement is designed to add extra energy absorption in case of a severe rear impact.

A crash course in Mercedes-Benz

A wedge-shaped seat insert and a padded knee bolster on the instrument panel's lower edge combine to help prevent front occupants from "submarining" under their seat belts in a severe frontal impact.

An aluminum sheet is inserted among the layers of wood on critical dashboard areas to help prevent splintering under the force of a direct impact.

Recognizing the importance of keeping occupants inside the car in a severe impact, Mercedes-Benz places extreme importance on door-lock design. This cone-type lock was patented in 1959 and has since been steadily refined.

The most effective single safety element is still the seat belt. So please, buckle up—even if you drive a Mercedes-Benz. For more information about Mercedes-Benz safety, call 1-800-243-9292 or visit your authorized Mercedes-Benz dealer. Some of the safety features depicted vary from model to model.

ENGINEERED LIKE NO OTHER CAR IN THE WORLD

THE CORPORATE ELITE

AUTOMATIC DATA PROCESSING

JOSH S. WESTON

Roseland, N. J. *201-994-5000*

SALES: *$1.7 bil.* PROFITS: *$188 mil.*

MARKET VALUE: *$3.7 bil.*

▶ Born 12/22/28, Brooklyn, N. Y.; BS (econ.), City Coll. of N. Y., 1950; MS (econ.), U. of New Zealand, 1951. Career path–finance/accounting, operations; tenure–20 years, CEO 8 years. Compensation: 1989 salary & bonus, $669,000; ownership, 162,000 shares. ▶ Computerized payroll service still bread and butter for this conservative company. Helped by trend to "outsource" data processing, cut costs. Even makes money servicing troubled stock brokers, auto dealers. Challenge: Replace technical visionary, second-in-command who resigned.

AVERY

CHARLES D. MILLER

Pasadena, Calif. *818-304-2000*

SALES: *$1.7 bil.* PROFITS: *$87 mil.*

MARKET VALUE: *$860 mil.*

▶ Born 3/1/28, Hartford, Conn.; BA (business), Johns Hopkins, 1949. Career path–mchdsing./mkting., prod./mfg., planning; tenure–26 years, CEO 13 years. Compensation: 1989 salary & bonus, $1,004,000; ownership, 126,000 direct, 5,000 indirect shares. ▶ Dennison merger–still under Justice Dept. scrutiny–boosts size of label, tag, ticket titan. Markets everything from tape decorations for pickups to library paste. His motto: "If it ain't broke, look again. There may be a way to do it better." Admires Winston Churchill, founder R. Stanton Avery.

AVNET

LEON MACHIZ

Great Neck, N. Y. *516-466-7000*

SALES: *$1.9 bil.* PROFITS: *$54 mil.*

MARKET VALUE: *$870 mil.*

▶ Born 6/23/24, Brooklyn, N. Y.; attended Cooper Union. Career path–merchandising/marketing; tenure–22 years, CEO 2 years. Compensation: 1989 salary & bonus, $926,000; ownership, 59,000 shares. ▶ His huge electronics distributor handles 1 million different products, all American. Now seeing payoff from consolidation of warehouses into three "mega" facilities. Switchover reduced workforce from 10,000 to 7,500 in two years. Expanding value-added computer business. Breeds trotters in Florida, races them up north.

AVON PRODUCTS

JAMES EDWARD PRESTON

New York, N. Y. *212-546-6015*

SALES: *$3.3 bil.* PROFITS: *$152 mil.*

MARKET VALUE: *$1.7 bil.*

▶ Born 4/30/33, Cleveland, Ohio; BS (communications), Northwestern, 1955. Career path–merchandising/marketing; tenure–26 years, CEO 2 years. Compensation: 1989 salary & bonus, $844,000; ownership, 189,000 direct, 1,000 indirect shares. ▶ Financials look good at door-to-door cosmetics giant, but he's struggling with another rough year. Raiders won't leave him alone. Latest group includes Gordon Getty, Mary Kay. Back to basics: Trimmed work force, sold predecessor's unsuccessful diversifications. Big winners: workplace sales, new perfume.

BAKER HUGHES

JAMES D. WOODS

Houston, Tex. *713-439-8600*

SALES: *$2.3 bil.* PROFITS: *$83 mil.*

MARKET VALUE: *$4 bil.*

▶ Born 7/24/31, Falmouth, Ky.; BA (finance), Calif. State at Fullerton, 1967. Career path–finance/accounting; tenure–35 years, CEO 4 years. Compensation: 1989 salary & bonus, $1,108,000; ownership, 139,000 shares. ▶ After cutting costs, closing plants, firing 6,000 employees, he's now biggest spender in the oilpatch. Just paid more than $550 million for Norton's drilling outfit. With that addition he ranks first or second in horizontal technology and many other "downhole" services, charges premium prices. Will win very big if energy prices stay up.

BALL

RICHARD M. RINGOEN

Muncie, Ind. *317-747-6100*

SALES: *$1.2 bil.* PROFITS: *$36 mil.*

MARKET VALUE: *$653 mil.*

▶ Born 5/15/26, Ridgeway, Iowa; BS (1947), MS (elect. eng., 1948) Iowa State. Career path–engineering/technical; tenure–21 years, CEO 10 years. Compensation: 1989 salary & bonus, $346,000; ownership, 146,000 shares. ▶ He once helped build the Titan missile, but he's concentrating less on his aerospace division and more on company's cans and jars, where profits look promising. Chasing acquisitions in Europe, Asia to realize ambition to become global canmaker, but still lags market leaders at home. A skier, he owns a cabin in Vail.

BALTIMORE GAS & ELECTRIC

GEORGE V. MCGOWAN

Baltimore, Md. *301-234-5000*

SALES: *$2 bil.* PROFITS: *$276 mil.*

MARKET VALUE: *$2.2 bil.*

▶ Born 1/30/28, Baltimore, Md.; BS (mech. eng.), U. of Md., 1951. Career path–engineering/technical; tenure–40 years, CEO 3 years. Compensation: 1989 salary & bonus, $500,000; ownership, 57,000 direct, 32,000 indirect shares. ▶ It's a year to forget. Calvert Cliffs nuke plant should soon come back on line in the fall, but construction costs, fines keep whacking earnings. He's been spending heavily to buy replacement power. He'll have to win hefty rate increases in coming years to catch up. Meantime, debt's up, bond ratings down, analysts gloomy.

BANC ONE

JOHN BONNET MCCOY

Columbus, Ohio *614-248-5800*

SALES: *$3.2 bil.* PROFITS: *$348 mil.*

MARKET VALUE: *$3.8 bil.*

▶ Born 6/11/43, Columbus, Ohio; BA (history), Williams, 1965; MBA (finance), Stanford, 1967. Career path–banking; tenure–20 years, CEO 6 years. Compensation: 1989 salary & bonus, $1,076,000; ownership, 82,000 direct, 208,000 indirect shares. ▶ Known for automated banking services and bold expansion in Texas (20 busted M Corp banks), where he hopes to offset slow growth in traditional Midwest markets. Organized, methodical. From the road, he phones in voice-mail reminders to himself. Plays year-round tourney with golf buddy.

BANCO POPULAR DE PUERTO RICO

RICHARD L. CARRION

San Juan, P. R. *809-765-9800*

SALES: *$631 mil.* PROFITS: *$56 mil.*

MARKET VALUE: *$341 mil.*

▶ Born 11/26/52, San Juan, Puerto Rico; BS (econ.), Wharton, 1975; MS, MIT, 1976. Career path–finance/accounting; tenure–14 years, CEO 2 years. Compensation: 1989 salary & bonus, $261,000; ownership, 57,000 direct, 144,000 indirect shares.[8] ▶ Founder's grandson already dominates market. Now buying No. 2 bank. Sees potential in serving Puerto Rican communities in Chicago, Los Angeles, New York, where he already has 13 branches. Vigorous manager, added student loans, credit cards. Flies kites with his kids, a current island fad.

BANCORP HAWAII

H. HOWARD STEPHENSON

Honolulu, Hawaii *808-537-8111*

SALES: *$762 mil.* PROFITS: *$80 mil.*

MARKET VALUE: *$682 mil.*

▶ Born 7/15/29, Wichita, Kan.; BA (political sci.), U. of Mich., 1950; JD, U. of Mo. at Kan. City Law, 1958. Career path–finance/accounting; tenure–31 years, CEO 2 years. Compensation: 1989 salary & bonus, $687,000; ownership, 51,000 shares. ▶ Advocate of consensus management, teamwork. Continues raking in spoils of booming state economy. Anxious to cater to Japanese customers, he installed ATMs with Japanese instructions. Earnings growth has put him on the acquisition trail. Latest deal: Hawaii-based FirstFed America thrift.

BANDAG

MARTIN G. CARVER

Muscatine, Iowa *319-262-1400*

SALES: *$525 mil.* PROFITS: *$76 mil.*

MARKET VALUE: *$1.1 bil.*

▶ Born 5/10/48, Davenport, Iowa; BA (math.), U. of Iowa, 1970; MBA, Ind., 1972. Career path–finance/accounting; tenure–11 years, CEO 9 years. Compensation: 1989 salary & bonus, $307,000; ownership, 5,000 direct, 2,000 indirect shares. ▶ "Temporarily retired from truck racing," he says in annual report. Good thing: tire-retreader's key overseas business suffering profit problems, and giant Goodyear is laying rubber on his home turf. He's fighting back with new services. Two years ago he set a diesel-truck land-speed record: 150.9 mph.

BANK OF BOSTON

IRA STEPANIAN

Boston, Mass. *617-434-2200*

SALES: *$6.8 bil.* PROFITS: *$70 mil.*

MARKET VALUE: *$636 mil.*

▶ Born 11/14/36, Cambridge, Mass.; BA (econ.), Tufts, 1958; MBA, Boston Coll., 1971. Career path–corporate lending; tenure–27 years, CEO 4 years. Compensation: 1989 salary & bonus, $1,248,000; ownership, 47,000 shares. ▶ Like most New England colleagues, he's not a happy banker. Real estate woes gave him a $125 million third-quarter loss; may now be Tisch target . With competitors, agreed with Comptroller of Currency to revise lending practices. Lobbied state to stop interstate banking–and lost. Big Celtics fan.

BANK OF NEW YORK

J. CARTER BACOT

New York, N. Y. *212-495-1784*

SALES: *$5.5 bil.* PROFITS: *$51 mil.*

MARKET VALUE: *$1.6 bil.*

▶ Born 2/7/33, Utica, N. Y.; AB, Hamilton, 1955; LLB, Cornell Law, 1958. Career path–legal, inv. research/trust; tenure–31 years, CEO 9 years. Compensation: 1989 salary & bonus, $1,080,000; ownership, 130,000 shares. ▶ To this victor, a tough guy in New York banking, belongs a passle of problems. His hostile takeover of Irving Bank was a watershed. But this year the Fed, worried about his capital position, nixed his bid for Connecticut's Northeast Bancorp. Other woes: New York's real estate market, recently reduced debt ratings, sluggish earnings.

BANKAMERICA

RICHARD MORRIS ROSENBERG

San Francisco, Calif. *415-622-3456*

SALES: *$11.4 bil.* PROFITS: *$820 mil.*

MARKET VALUE: *$4.7 bil.*

▶ Born 4/21/30, Fall River, Mass.; BS (journalism), Suffolk, 1952; MBA (1963), LLB (1966), Golden Gate. Career path–banking; tenure–3 years, CEO 5 months. Compensation: 1989 salary & bonus, $1,250,000; ownership, 2,000 direct, 25,000 indirect shares. ▶ Successor to Tom Clausen inherits one of banking's most dramatic turnarounds. LDC debt's still a drag on portfolio, but he's whittling it down. He's shopping carefully, picking up Arizona, Oregon S&Ls. Affable morale-booster, with strong branch-banking background. Terror on the tennis court.

BANKERS TRUST NEW YORK

CHARLES STEADMAN SANFORD JR.

New York, N. Y. *212-250-2500*

SALES: *$7.3 bil.* LOSS: *$980 mil.*

MARKET VALUE: *$3 bil.*

▶ Born 10/8/36, Savannah, Ga.; BA (history), U. of Ga., 1958; MBA (finance), Wharton, 1960. Career path–banking, finance; tenure–29 years, CEO 3 years. Compensation: 1989 salary & bonus, $1,500,000; ownership, 69,000 shares. ▶ Courtly Southerner, industry pioneer who in transforming this old-line commercial lender into a merchant bank. But downturn in merger activity, investment banking keeps profits flat. To avoid a decline, he aims to cut costs. Reducing corporate finance staff by 10%. Critics wonder if he's too reliant on volatile trading profits.

BARD (C. R.)

GEORGE T. MALONEY

Murray Hill, N. J. *201-277-8000*

SALES: *$778 mil.* PROFITS: *$65 mil.*

MARKET VALUE: *$728 mil.*

▶ Born 8/28/32, Philadelphia, Pa.; BS (econ.), Siena, 1954. Career path–merchandising/marketing; tenure–32 years, CEO 2 years. Compensation: 1989 salary & bonus, $420,000; ownership, 103,000 direct, 177,000 indirect shares. ▶ Known for dry sense of humor, he'll need it after a tough first year running medical-products company. Pulled four angioplasty catheters–20% of world sales–modified without FDA approval. He's replaced division management and is picking up the pieces. Sale of a health care division will raise some cash.

FOOTNOTES APPEAR ON PAGE 292

THE CORPORATE ELITE

BARNETT BANKS

CHARLES EDWARD RICE

Jacksonville, Fla. *904-791-7720*

SALES: *$3 bil.* PROFITS: *$257 mil.*

MARKET VALUE: *$1.6 bil.*

▶ Born 8/4/35, Chattanooga, Tenn.; BA (business admin.), U. of Miami, 1958; MBA, Rollins, 1964. Career path–finance/accounting; banking; tenure–25 years, CEO 11 years. Compensation: 1989 salary & bonus, $952,000; ownership, 54,000 direct, 4,000 indirect shares. ▶ He can run–he competed in the Boston Marathon in his younger days–but he can't hide. Regulators forced hikes in loan-loss reserves, Moody's downgraded debt. Main problem: Florida real estate market. Staid boss still snapping up other banks. Now has 42 Georgia offices.

BAROID

JAMES LANDIS MARTIN

Houston, Tex. *713-987-4000*

SALES: *$489 mil.* PROFITS: *$15 mil.*

MARKET VALUE: *$841 mil.*

▶ Born 11/5/45, Grand Island, Neb.; BS (business), Northwestern, 1968; JD, Northwestern Law, 1973. Career path–legal; tenure–3 years, CEO 3 years. Compensation: 1989 salary & bonus, $375,000; ownership, 21,000 direct, 16,000 indirect shares. ▶ His other hat reads NL Industries, which spun off this petroleum-services company. Just added second profitable year after five in the red; analysts credit President Chap Hutcheson, who runs the company day-to-day. He plans a purer oil play by spinning off titanium operations from energy.

BATTLE MOUNTAIN GOLD

KARL E. ELERS

Houston, Tex. *713-653-6400*

SALES: *$131 mil.* PROFITS: *$26 mil.*

MARKET VALUE: *$765 mil.*

▶ Born 9/26/38, Chicago, Ill.; BS (mining eng., 1960), BS (geol. eng., 1961), U. of Ariz. College of Mines. Career path–engineering/technical; tenure–3 years, CEO 6 months. Compensation: 1989 salary & bonus, $275,000; ownership, 9,000 shares. ▶ New man pushing his retired predecessor's international strategy. Engineered series of acquisitions that turned gold miner into global producer. Problem: Some mines swell geologically but risky politically. But company is lean, well-financed. Off hours, reads Renaissance history, watches birds.

BAUSCH & LOMB

DANIEL E. GILL

Rochester, N. Y. *716-338-6000*

SALES: *$1.2 bil.* PROFITS: *$114 mil.*

MARKET VALUE: *$1.9 bil.*

▶ Born 6/24/36, Ziegler, Ill.; BS (fin.), Northwestern, 1958. Career path–finance/accounting; tenure–12 years, CEO 9 years. Compensation: 1989 salary & bonus, $1,273,000; ownership, 64,000 shares. ▶ Take the day off. That's what he told employees last December, when company hit his $1.2 billion revenue goal a year early. Acquisitions made the difference: He moved from eye care (frames, lenses, contacts) into dental supplies, hearing aids. You may see him on the tennis court wearing company's Ray-Bans, a model called The General.

BAXTER INTERNATIONAL

VERNON R. LOUCKS JR.

Deerfield, Ill. *708-948-2000*

SALES: *$7.4 bil.* PROFITS: *$446 mil.*

MARKET VALUE: *$5.9 bil.*

▶ Born 10/24/34, Evanston, Ill.; BA (history), Yale, 1957; MBA, Harvard, 1963. Career path–administration; tenure–25 years, CEO 10 years. Compensation: 1989 salary & bonus, $1,461,000; ownership, 250,000 direct, 7,000 indirect shares. ▶ Working on his third reorganization of this hospital equipment supplier in four years. Took a $566 million writeoff, will close 21 plants, eliminate 6,400 employees. Investors haven't lost faith, even though his ROE lags competitors Abbott and J&J. Handsome. Some insiders call him "the CEO from central casting."

BB&T FINANCIAL

JOHN A. ALLISON IV

Wilson, N. C. *919-399-4111*

SALES: *$512 mil.* PROFITS: *$44 mil.*

MARKET VALUE: *$360 mil.*

▶ Born 8/14/48, Charlotte, N. C.; BS (business), U. of N. C., 1971; MBA, Duke, 1973. Career path–finance/accounting; tenure–19 years, CEO 1 year. Compensation: 1989 salary & bonus, $378,000; ownership, 41,000 shares.[7] ▶ Overseeing a series of S&L acquisitions for state's oldest bank. No salvage jobs for this conservative institution. Goal: boosting mortgage originations to increase related retail banking. Still looks like a candidate for out-of-state buyer one day. At home, he's filled family room with an elaborate model railroad.

BEAR STEARNS

ALAN C. GREENBERG

New York, N. Y. *212-272-2000*

SALES: *$2.4 bil.* PROFITS: *$172 mil.*

MARKET VALUE: *$1 bil.*

▶ Born 9/3/27, Wichita, Kan.; BA (business), U. of Mo., 1949. Career path–finance/accounting; tenure–41 years, CEO 12 years. Compensation: 1989 salary & bonus, $4,212,000[7]; ownership, 3,473,000 direct, 1,000 indirect shares. ▶ Champion bridge player still holds a winning hand. While his firm's earnings are limited by the downturn in business affecting the entire securities industry, his company's stock remains an analyst favorite. His secret; he takes no prisoners when it comes to cutting costs, keeping his firm from sliding into deep problems.

BECKMAN INSTRUMENTS

LOUIS THOMAS ROSSO

Fullerton, Calif. *714-871-4848*

SALES: *$786 mil.* PROFITS: *$42 mil.*

MARKET VALUE: *$405 mil.*

▶ Born 8/13/33, San Francisco, Calif.; AB (biology, chem.), San Francisco State, 1955; MBA, U. of Santa Clara, 1967. Career path–engineering/technical, merchandising/marketing; tenure–32 years, CEO 2 years. Compensation: 1989 salary & bonus, $398,000; ownership, 31,000 shares. ▶ Government funding cutbacks crimped sales of research products at this SmithKline spin-off. But growth in diagnostics equipment helped offset slowdown. Product rollouts, R&D up. Sour note: litigation over groundwater pollution at a California facility.

BECTON, DICKINSON

RAYMOND V. GILMARTIN

Frankin Lakes, N. J. *201-848-6800*

SALES: *$1.8 bil.* PROFITS: *$158 mil.*

MARKET VALUE: *$2.5 bil.*

▶ Born 3/6/41, Washington, D. C.; BS (elect. eng.), Union, 1963; MBA, Harvard, 1968. Career path–administration; tenure–14 years, CEO 2 years. Compensation: 1989 salary & bonus, $585,000; ownership, 19,000 direct, 2,000 indirect shares. ▶ Former consultant who helped predecessor reorganize health care giant, he's now focusing on core products: needles, syringes, catheters, diagnostics. These are mature markets in U. S., but not overseas where he's expanding. Self-proclaimed "pretty boring guy," he skis, sails, works with Boy Scouts.

BELL ATLANTIC

RAYMOND W. SMITH

Philadelphia, Pa. *215-963-6000*

SALES: *$11.4 bil.* PROFITS: *$1.1 bil.*

MARKET VALUE: *$16.8 bil.*

▶ Born 9/24/37, Pittsburgh, Pa.; BS (ind. eng.), Carnegie-Mellon, 1959; MBA, U. of Pittsburgh, 1960. Career path–finance/accounting; tenure–31 years, CEO 2 years. Compensation: 1989 salary & bonus, $1,234,000; ownership, 34,000 direct, 6,000 indirect shares. ▶ Talk about long distance. With modest growth at home, he's going overseas. Teamed up with sibling Baby Bell Ameritech to buy control of New Zealand phone company, agreed to run half the Argentine phone system, building cellular in Eastern Europe.

BELLSOUTH

JOHN L. CLENDENIN

Atlanta, Ga. *404-249-2000*

SALES: *$14 bil.* PROFITS: *$1.7 bil.*

MARKET VALUE: *$24.6 bil.*

▶ Born 5/8/34, El Paso, Tex.; BA (political sci.), Northwestern, 1955. Career path–engineering/technical; tenure–35 years, CEO 7 years. Compensation: 1989 salary & bonus, $1,285,000; ownership, 33,000 shares. ▶ Loss of LIN Broadcasting to McCaw hurt, though the $66.5 million settlement did salve some wounds. Overseas push rewarded with Mexican cellular contract, but still sees domestic cellular as company's real growth engine. No-nonsense guy; often eschews company car and jet to take subway to the airport for commercial flights.

BELO (A. H.)

ROBERT WILLIAM DECHERD

Dallas, Tex. *214-977-6606*

SALES: *$417 mil.* PROFITS: *$23 mil.*

MARKET VALUE: *$617 mil.*

▶ Born 4/9/51, Dallas, Tex.; AB (American hist.), Harvard, 1973. Career path–general mgmt.; tenure–17 years, CEO 4 years. Compensation: 1989 salary & bonus, $743,000; ownership, 594,000 direct, 44,000 indirect shares. ▶ Great-grandfather founded Dallas *Morning News*, and now he runs this Texas media empire. Earnings doubled last year, but still below 1985 record. Successfully–but expensively–defended antitrust suit. Big capital spending program almost over. Hero to the common man: Lifted eight-month corporate salary freeze.

BEMIS

JOHN H. ROE

Minneapolis, Minn. *612-340-6000*

SALES: *$1.1 bil.* PROFITS: *$47 mil.*

MARKET VALUE: *$772 mil.*

▶ Born 12/21/39, St. Paul, Minn.; BA (history), Williams, 1962; MBA (marketing), Harvard, 1964. Career path–merchandising/marketing; tenure–26 years, CEO 5 months. Compensation: 1989 salary & bonus, $635,000; ownership, 182,000 shares. ▶ Avid fly fisherman ties future growth to medical packaging, international markets. Strong in meat and cheese packaging, paper bags, pressure-sensitive labels. Weak economy hurts, though campaign against plastic waste could hurt worse. Management credo: "I am the chief personnel officer."

BENEFICIAL

FINN M. W. CASPERSEN

Wilmington, Del. *302-798-0800*

SALES: *$1.6 bil.* PROFITS: *$121 mil.*

MARKET VALUE: *$986 mil.*

▶ Born 10/27/41, New York, N. Y.; BA (econ.), Brown, 1963; LLB, Harvard Law, 1966. Career path–legal; tenure–18 years, CEO 14 years. Compensation: 1989 salary & bonus, $1,227,000; ownership, 88,000 direct, 543,000 indirect shares. ▶ With 1,000 offices worldwide, heavily computerized small-loan business is highly diversified. Keeps controls tight, costs down. Recent buy gets him into electronic tax-filing. Problems: Rising bad-loan ratio, troubled Florida real estate venture. Into arcane "four-in-hand" carriage driving; he navigates for national team.

BERGEN BRUNSWIG

ROBERT E. MARTINI

Orange, Calif. *714-385-4000*

SALES: *$3.9 bil.* PROFITS: *$48 mil.*

MARKET VALUE: *$769 mil.*

▶ Born 1/29/32, Hackensack, N. J.; BS (pharmacy), Ohio State, 1954. Career path–engineering/technical, distribution; tenure–34 years, CEO 2 months. Compensation: 1989 salary & bonus, $799,000; ownership, 1,375,000 direct, 461,000 indirect shares. ▶ A competitor who likes "almost any kind of a game with a ball." Got his job after brother Emil took mandatory retirement in September. Sales, earnings in drug distribution growing at healthy clip. Not so at Commtron video distributor. Management unsettled, ever-lower tape prices eroding margins.

BERKLEY (W. R.)

WILLIAM ROBERT BERKLEY

Greenwich, Conn. *203-629-2880*

SALES: *$551 mil.* PROFITS: *$56 mil.*

MARKET VALUE: *$397 mil.*

▶ Born 10/31/45, Newark, N. J.; BA (statistics, finance), NYU, 1966; MBA, Harvard, 1968. Career path–finance/insurance; tenure–23 years, CEO 23 years. Compensation: 1989 salary & bonus, $842,000; ownership, 1,672,000 direct, 191,000 indirect shares. ▶ While waiting out the property-casualty insurance downturn, he's dodging risky business. Savvy stockpicker in '60s, now he combs industry for profitable niches–specialty lines, reinsurance, claims handling. Intense, he also runs three other companies, unwinds deep-sea fishing in Florida.

BERKSHIRE HATHAWAY

WARREN EDWARD BUFFETT

Omaha, Neb. *402-346-1400*

SALES: *$2.5 bil.* PROFITS: *$447 mil.*

MARKET VALUE: *$7.3 bil.*

▶ Born 8/30/30, Omaha, Neb.; BS, U. of Neb., 1950; MS (econ.), Columbia, 1951. Career path–finance/accounting; tenure–20 years, CEO 20 years. Compensation: 1989 salary & bonus, $100,000; ownership, 475,000 direct, 41,000 indirect shares. ▶ May not look like a billionaire, but he sure knows money. His investing boosted company's net worth 44.4% last year–a banner even by his standards. Likes convertible preferred issued by the takeover-spooked. Not immune to current market plunge, and his own insurance unit's facing rough climate.

BERLITZ INTERNATIONAL

ROBERT MAXWELL

Princeton, N. J. *609-924-8500*

SALES: *$216 mil.* PROFITS: *$14 mil.*

MARKET VALUE: *$314 mil.*

▶ Born 6/10/23, Selo Slatina, Czechoslovakia. Career path–entrepreneur; tenure–1 year, CEO 1 year. Compensation: 1989 salary & bonus, NA[6]; ownership, none.[10] ▶ British media mogul who can say profit in most any tongue. Wisely spun off this language-training property from his Macmillan publishing house last year, which still owns 56%. More than half of tuition revenue comes from corporate clients in need of staffers who can deal with foreign customers, suppliers. Expanding overseas–even in Eastern Europe.

BERRY PETROLEUM

HARVEY L. BRYANT

Taft, Calif. *805-769-8811*

SALES: *$42 mil.* PROFITS: *$13 mil.*

MARKET VALUE: *$354 mil.*

▶ Born 10/9/29, Enid, Okla.; BS (geology eng.), U. of Okla., 1951. Career path–engineering/technical; tenure–7 years, CEO 7 years. Compensation: 1989 salary & bonus, $337,000; ownership, 26,000 direct, 49,000 indirect shares. ▶ He's worked for Exxon, Hess, Pickens–now heads one of California's largest oil producers (9,500 bbl/day; 69 million bbl reserves). Company newly public–but with colorful history. Founder Clarence Berry came back from Klondike, invested in oil-rich San Joaquin valley land. Berry's descendants own 60% of stock.

BETHLEHEM STEEL

WALTER FRED WILLIAMS

Bethlehem, Pa. *215-694-2424*

SALES: *$5.3 bil.* PROFITS: *$246 mil.*

MARKET VALUE: *$910 mil.*

▶ Born 2/7/29, Upland, Pa.; BS (civil eng.), U. of Del., 1951. Career path–production/manufacturing; tenure–39 years, CEO 5 years. Compensation: 1989 salary & bonus, $808,000; ownership, 21,000 shares. ▶ Maintains old unwritten rule against foreign cars in the parking lot. May soon put out welcome mat for foreign nameplates made in U. S. With global rivals buying assets here, may have to join forces with a major foreign producer. Mounting crusade for quality, on-time delivery. True, economy is hammering profits–but at least there are profits.

BETZ LABORATORIES

JOHN F. MCCAUGHAN

Trevose, Pa. *215-355-3300*

SALES: *$517 mil.* PROFITS: *$56 mil.*

MARKET VALUE: *$1.1 bil.*

▶ Born 6/24/35, Montreal, Quebec, Canada; BA (business), Sir Geo. Williams, 1957. Career path–administration; tenure–30 years, CEO 9 years. Compensation: 1989 salary & bonus, $533,000; ownership, 43,000 direct, 14,000 indirect shares. ▶ Green is good. Heightened environmental concerns are benefitting this seller of wastewater treatment chemicals and water-control systems. Opened new European headquarters and research facility. A taskmaster who reveres technical competence, he runs business on a first-name basis, keeps an open door.

BEVERLY ENTERPRISES

DAVID RUSSELL BANKS

Fort Smith, Ark. *501-452-6712*

SALES: *$2.1 bil.* LOSS: *$104 mil.*

MARKET VALUE: *$351 mil.*

▶ Born 2/15/37, Arcadia, Wis.; BS (business admin.), U. of Ark., 1959. Career path–finance/accounting; tenure–11 years, CEO 1 year. Compensation: 1989 salary & bonus, $433,000; ownership, 290,000 shares. ▶ Working to move company out of financial sickroom. Nation's largest nursing-home operator should post profit this year–first since 1986. He's refinanced debt, sold facilities, eliminated layers of management, moved headquarters from Pasadena, Calif. Represents Little Rock's Stephens Inc., major shareholder. Collects baskets, ceramics.

BHC COMMUNICATIONS

HERBERT J. SIEGEL

New York, N. Y. *212-421-0200*

SALES: *$247 mil.* PROFITS: *$811 mil.*

MARKET VALUE: *$1.3 bil.*

▶ Born 5/7/28, Philadelphia, Pa.; BA (journalism), Lehigh, 1950. Career path–entrepreneur; tenure–13 years, CEO 13 years. Compensation: 1989 salary & bonus, NA[2]; ownership, NA.[8] ▶ His long-running feud with Warner's Steve Ross finally settled by the Time-Warner merger, he's now head of three companies on list. This spin-off from Chris-Craft Industries owns TV stations, half the shares in station owner United TV, and $1.7 billion in cash and preferred stock from tendered Warner shares. Now, he has to find places to invest the money.

BIOGEN

JAMES L. VINCENT

Cambridge, Mass. *617-864-8900*

SALES: *$28 mil.* PROFITS: *$3 mil.*

MARKET VALUE: *$523 mil.*

▶ Born 12/15/39, Johnstown, Pa.; BS (mech. eng.), Duke, 1961; MBA, Wharton, 1963. Career path–merchandising/marketing, production/manufacturing; tenure–5 years, CEO 5 years. Compensation: 1989 salary & bonus, $608,000; ownership, 976,000 shares.[7] ▶ Biotech pioneer turned first profit last year. Cancer treatment alpha-interferon, licensed to Schering-Plough, could bring 1990 royalties of $25 million. Gets revenue from gamma-interferon (arthritis treatment) and two other drugs. Testing more. Once a football, track man, he's a skier.

TEAM WORK

THE COOPERATION OF 5 COUNTRIES HAS ASSURED EFFICIENCY ON THE GROUND AND RELIABILITY IN THE AIR: AIRBUS WAS DESIGNED AND EQUIPPED THROUGH THE COOPERATION AND PARTNERSHIP OF 4 EUROPEAN COUNTRIES AND THE U.S.A. THE ENGINES AND AVIONICS FOR EXAMPLE, ARE PARTLY DESIGNED AND BUILT IN COOPERATION WITH THE AMERICANS. AIRBUS ANSWERS THE PRECISE REQUIREMENTS OF AIR CANADA, AMERICAN, BRANIFF, CANADIAN INTERNATIONAL, CONTINENTAL, EASTERN, NORTHWEST AND PAN AM, WHO FLY AND WILL FLY THEIR COLORS. THE QUALITY OF THE WORK AND THE ORIGINALITY OF THE CREATIVE EFFORT KEEPS US UP THERE — MEET THE TEAM.

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BIOMET

DANE ALAN MILLER

Warsaw, Ind. *219-267-6639*

SALES: *$162 mil.* PROFITS: *$30 mil.*

MARKET VALUE: *$801 mil.*

▶ Born 2/7/46, Bell Fountaine, Ohio; BS (material science eng.), General Motors Inst., 1969; MS (1971), PhD (biomed. eng., 1974), U. of Cincinnati. Career path–engineering/technical; tenure–13 years, CEO 13 years. Compensation: 1989 salary & bonus, $210,000; ownership, 1,552,000 shares. ▶ Brainy biomedical engineer just logged 27th straight quarter of earnings growth. As a maker of reconstructive orthopedic appliances such as replacement hips and knees, demographics are on his side. Working on a cementless composite hip.

BLACK & DECKER

NOLAN D. ARCHIBALD

Towson, Md. *301-583-3900*

SALES: *$3.2 bil.* PROFITS: *$30 mil.*

MARKET VALUE: *$762 mil.*

▶ Born 6/22/43, Ogden, Utah; BS, Weber State, 1968; MBA, Harvard, 1970. Career path–marketing; tenure–5 years, CEO 5 years. Compensation: 1989 salary & bonus, $1,302,000; ownership, 11,000 direct, 16,000 indirect shares. ▶ Former basketball All-American is working to integrate Emhart acquisition, sell off assets and reduce his debt. But with few buyers, he's had to slow selling schedule. Vulnerable to economic slump, since B&D's small appliances and power tools aren't essentials. With eight kids, he spends lots of time at school events.

BLAIR

MURRAY K. MCCOMAS

Warren, Pa. *814-723-3600*

SALES: *$432 mil.* PROFITS: *$27 mil.*

MARKET VALUE: *$293 mil.*

▶ Born 12/3/36, Warren, Pa.; BS (business), Wharton, 1958. Career path–merchandising/marketing; tenure–28 years, CEO 3 years. Compensation: 1989 salary & bonus, $334,000; ownership, 24,000 shares. ▶ Runs untrendy mail-order clothier (formerly New Process Co). He's expanding mailing list–up by 2.6 million in 1989 to 15 million. Boosted prices last year, but can't do that again. Challenge: to keep sales up if recession comes; his blue-collar customers could be hard hit. Known for informality with staff. Likes cross-country skiing.

BLOCK (H&R)

HENRY W. BLOCH

Kansas City, Mo. *816-753-6900*

SALES: *$1 bil.* PROFITS: *$124 mil.*

MARKET VALUE: *$2.1 bil.*

▶ Born 7/30/22, Kansas City, Mo.; BS (mathematics), U. of Mich., 1944. Career path–management; tenure–44 years, CEO 36 years. Compensation: 1989 salary & bonus, $833,000; ownership, 3,000,000 direct, 166,000 indirect shares.[8] ▶ Preparing tax returns has brought him 35 years of steady revenue gains. Country-wide electronic filing gave a boost to profits. So will any tax changes that come this year. Already into temporary help and computer services, he'd like to diversify more. But it's tough to find a business that meets his standards.

BLOCK DRUG

LEONARD N. BLOCK

Jersey City, N. J. *201-434-3000*

SALES: *$434 mil.* PROFITS: *$46 mil.*

MARKET VALUE: *$576 mil.*

▶ Born 12/21/11, Brooklyn, N. Y.; BS (business), U. of Pa., 1933. Career path–merchandising/marketing, finance/accounting; tenure–57 years, CEO 27 years. Compensation: 1989 salary & bonus, $399,000; ownership, 225,000 direct, 1,476,000 indirect shares. ▶ He's got high hopes for new aerosol-foam denture-cleaning system, claims it's the biggest breakthrough since denture tablets 25 years ago. He should know: Other products at closely held company include Polident, Dentu-Creme. Not the retiring type, has seven years left on his contract.

BLOCKBUSTER ENTERTAINMENT

H. WAYNE HUIZENGA

Fort Lauderdale, Fla. *305-524-8200*

SALES: *$403 mil.* PROFITS: *$44 mil.*

MARKET VALUE: *$1.4 bil.*

▶ Born 12/29/37, Evergreen Park, Ill.; attended Calvin. Career path–entrepreneur; tenure–3 years, CEO 3 years. Compensation: 1989 salary & bonus, NA[6]; ownership, 4,856,000 direct, 300,000 indirect shares. ▶ Entrepreneur who bought in when company had 26 outlets. Now, total is 1,435 and counting, and he's expanding overseas. Skeptics worry about aggressive accounting, superfast growth. But that's his nonstop style. Owns 15% of Miami Dolphins, interests in startups. Once halted a golf game to inspect portable toilets, one of his ventures.

BMA

WILLIAM THOMAS GRANT II

Kansas City, Mo. *816-753-5422*

SALES: *$468 mil.* PROFITS: *$25 mil.*

MARKET VALUE: *$310 mil.*

▶ Born 5/13/50, Kansas City, Mo.; BA, U. of Kan., 1972; MBA, Wharton, 1976. Career path–merchandising/marketing; tenure–14 years, CEO 4 years. Compensation: 1989 salary & bonus, $543,000; ownership, 79,000 direct, 81,000 indirect shares. ▶ Grandson of founder just sold off basic insurance business to Italian buyer for $157 million. Wise move, since it was too small to compete effectively. Remaining business (test lab for major life insurers) is well-positioned. Paying special dividend; may make acquisitions, buy back shares. Swims daily.

BMC SOFTWARE

MAX P. WATSON JR.

Sugar Land, Tex. *713-240-8800*

SALES: *$93 mil.* PROFITS: *$20 mil.*

MARKET VALUE: *$576 mil.*

▶ Born 11/21/45, New Orleans, La.; BBA, 1968, La. Tech. Career path–sales, marketing; tenure–5 years, CEO 6 months. Compensation: 1989 salary & bonus, $460,000; ownership, 169,000 shares. ▶ This former IBMer continues predecessor's innovative formula: Develop targeted software for Big Blue mainframes, disk drives, data bases. Then keep costs low by telemarketing, using formidable sales operation. Spends 25% of sales on R&D to keep new products rolling. Will some be too pricey to sell through telemarketing? Pushing overseas.

TEAM WORK

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BOATMEN'S BANCSHARES

ANDREW B. CRAIG III

St. Louis, Mo. *314-466-6600*

SALES: *$1.5 bil.* PROFITS: *$129 mil.*

MARKET VALUE: *$932 mil.*

▶ Born 3/20/31, Buffalo, N. Y.; BA, U. of Buffalo, 1955. Career path–banking; tenure–6 years, CEO 3 years. Compensation: 1989 salary & bonus, $731,000; ownership, 6,000 shares. ▶ Assets up by 50% (to $15 billion) now that his merger with neighboring Centerre is final. His challenge is to boost profitability. With his Mexico loans gone, he has no LDC debt worries. And he wisely avoided LBOs. Result: He has few looming charge-offs compared with other regionals. But growth has slowed in suburban St. Louis, his bread-and-butter market.

BOB EVANS FARMS

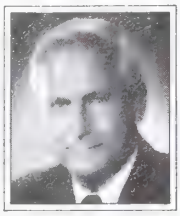
DANIEL E. EVANS

Columbus, Ohio *614-491-2225*

SALES: *$454 mil.* PROFITS: *$28 mil.*

MARKET VALUE: *$435 mil.*

▶ Born 8/24/36, Gallipolis, Ohio; attended Ohio Wesleyan, Ohio State. Career path–operations; tenure–35 years, CEO 19 years. Compensation: 1989 salary & bonus, $315,000; ownership, 412,000 direct, 4,000 indirect shares. ▶ Penned in by hog cycle. Sausage accounts for 30% of sales at his restaurants, and high pork prices have left profits in trough. Health craze hurts, so he's decreed 20% of sales from new products. Gives managers more autonomy, tests grocery line. Buying back stock. Cousin of founder Bob favors boots, string ties.



BOISE CASCADE

JOHN B. FERY

Boise, Idaho *208-384-6161*

SALES: *$4.3 bil.* PROFITS: *$268 mil.*

MARKET VALUE: *$963 mil.*

▶ Born 2/16/30, Bellingham, Wash.; BA (business admin.), U. of Wash., 1953; MBA, Stanford, 1955. Career path–production/manufacturing; tenure–34 years, CEO 18 years. Compensation: 1989 salary & bonus, $1,027,000; ownership, 80,000 shares. ▶ Low-key, diplomatic boss can play hardball when necessary (e.g., dealing with unions). Pulp, paper, and building-materials producer caught in downturn. His plan: focus on office paper, operate world-class mills, expand office-products distribution, emphasize higher-margin products.

BORDEN

ROMEO J. VENTRES

Columbus, Ohio *614-225-4000*

SALES: *$7.6 bil.* LOSS: *$61 mil.*

MARKET VALUE: *$4.8 bil.*

▶ Born 11/2/24, East Boston, Mass.; BS (chem. eng.), Worcester Polytechnic Inst., 1948. Career path–administration; tenure–33 years, CEO 4 years. Compensation: 1989 salary & bonus, $1,491,000[1]; ownership, 110,000 shares. ▶ De-emphasized dairy lines to make room for more snacks, potato chips, pasta. Now comes phase two: Cutting manufacturing costs. He's closing 18 old factories, adding 11 new "hyper-plants" to replace them. Retiring next year; his likely successor is Anthony D'Amato, who ran company's top-ranked wall-covering business.

BOEING

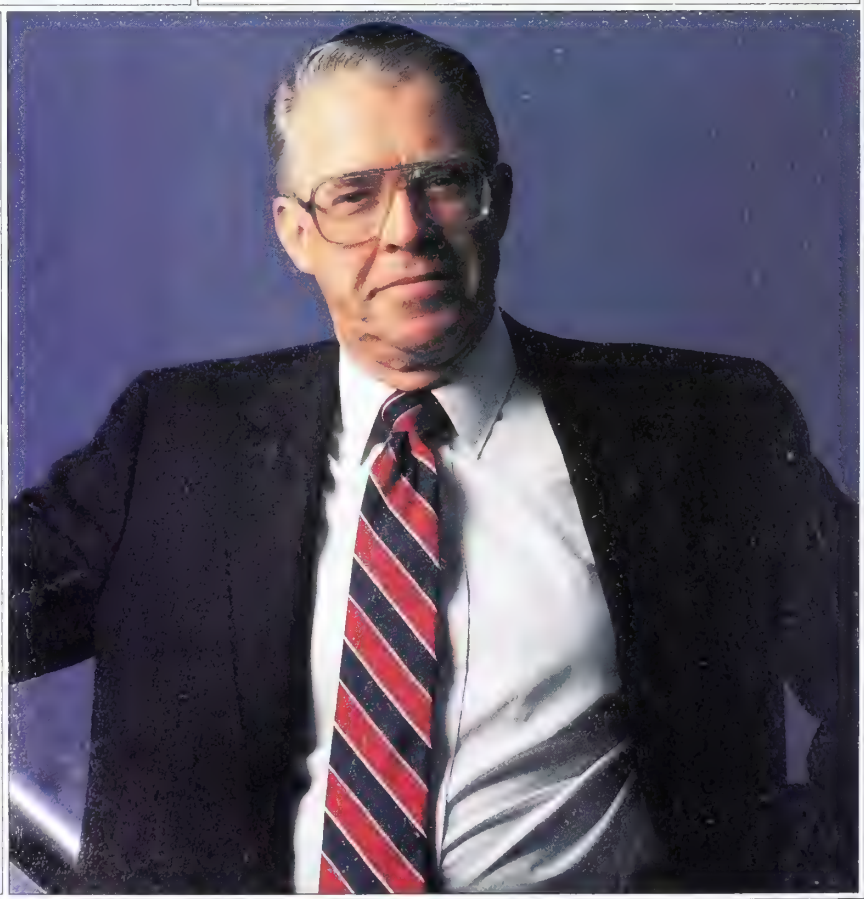
FRANK SHRONTZ

Seattle, Wash. *206-655-2121*

SALES: *$20.3 bil.* PROFITS: *$675 mil.*

MARKET VALUE: *$16.7 bil.*

▶ BORN 12/14/31, BOISE, IDAHO; LLB, U. OF IDAHO LAW, 1954; MBA, HARVARD, 1958. CAREER PATH—ADMINISTRATION, SALES; TENURE—32 YEARS, CEO 4 YEARS. COMPENSATION: 1989 SALARY & BONUS, $910,000; OWNERSHIP, 36,000 SHARES. ▶ QUIET AND EVEN-TEMPERED, HE'S JUST THE MAN TO KEEP PERSPECTIVE ON COMPANY'S RUNAWAY SUCCESS: BACKLOG IS NOW MORE THAN 1,700 PLANES WORTH AN EYE-BUGGING $90 BILLION. THAT WILL KEEP PRODUCTION LINES HUMMING THROUGH THE MID-1990S. IF OPTIONS ON THE BOOKS CONVERT TO ORDERS, COULD TAKE COMPANY INTO NEXT CENTURY. BIG JOB IS TO MANAGE PRODUCTION EFFORT, IMPROVE QUALITY, KEEP PEOPLE FROM BECOMING COMPLACENT, AND KEEP THE HUGE AIRCRAFT MACHINE FLEXIBLE. IF STEALTH BOMBS, EFFORTS OF EX-PENTAGON OFFICIAL TO DIG DEFENSE BUSINESS OUT OF RED MAY FAIL. LIKES OCCASIONAL SKI OR PHEASANT-HUNTING TRIPS.



FOOTNOTES APPEAR ON PAGE 292

THE CORPORATE ELITE

BOSTON EDISON

STEPHEN J. SWEENEY

Boston, Mass. *617-424-2000*

SALES: *$1.3 bil.* LOSS: *$16 mil.*

MARKET VALUE: *$664 mil.*

▶ Born 12/15/28, Winthrop, Mass.; BA (languages), Mt. St. Mary's, 1950; AS (elec. eng.), Northeastern, 1957. Career path–engineering/technical; tenure–37 years, CEO 6 years. Compensation: 1989 salary & bonus, $472,000; ownership, 4,000 shares. ▶ Bouncing back from a year of regulatory tussles. He wasn't allowed to boost rates to offset restart costs for his Pilgrim nuclear plant–and that produced a loss for all of 1989. Also under gun to finance customer conservation. Just in case, he wants approval to build a new gas- or oil-fired generating plant.

BOWATER

ANTHONY P. GAMMIE

Darien, Conn. *203-656-7200*

SALES: *$1.5 bil.* PROFITS: *$145 mil.*

MARKET VALUE: *$750 mil.*

▶ Born 12/17/34, London, England. Career path–production/manufacturing; tenure–35 years, CEO 8 years. Compensation: 1989 salary & bonus, $683,000; ownership, 18,000 shares. ▶ Tall, athletic boss likes starting the day with "proper English breakfasts." Better watch out: Soft market plaguing his paper company could give him heartburn. Good news: Diversification into computer forms has turned into a cash cow. First recycling plant will be on line at end of 1991. But outspoken opponent of government regulation warns of "environmental overkill."

BRIGGS & STRATTON

FREDERICK PRESCOTT STRATTON JR.

Wauwatosa, Wis. *414-259-5333*

SALES: *$876 mil.* LOSS: *$20 mil.*

MARKET VALUE: *$369 mil.*

▶ Born 3/25/39, Milwaukee, Wis.; BS (business), Yale, 1961; MBA, Stanford, 1963. Career path–finance/accounting; tenure–17 years, CEO 13 years. Compensation: 1989 salary & bonus, $435,000; ownership, 5,000 direct, 59,000 indirect shares. ▶ His name's on the door–and lots of lawnmower engines–so founder's grandson takes a personal approach to marketing. Just scored a coup by winning contract to supply Toro, displacing Japanese rival Suzuki. Order could boost sales by $25 million. He's key member of Milwaukee power structure.

BRISTOL-MYERS SQUIBB

RICHARD L. GELB

New York, N. Y. *212-546-4000*

SALES: *$9.2 bil.* PROFITS: *$747 mil.*

MARKET VALUE: *$32.2 bil.*

▶ Born 6/8/24, New York, N. Y.; BA (econ.), Yale, 1948; MBA, Harvard, 1950. Career path–merchandising/marketing, finance/accounting; tenure–40 years, CEO 19 years. Compensation: 1989 salary & bonus, $1,688,000; ownership, 450,000 shares. ▶ Avid golfer shot birdie last year with Squibb merger. Runs world's second largest (in sales) drug company–after Merck. Impressive R&D pipeline, consumer brands (Clairol, Windex), OTC remedies (Excedrin). Still, cutbacks necessary–maybe 10% of work force. Heir-apparent (from Squibb) has left.

BROOKLYN UNION GAS

ELWIN S. LARSON

Brooklyn, N. Y. *718-403-2000*

SALES: *$969 mil.* PROFITS: *$64 mil.*

MARKET VALUE: *$644 mil.*

▶ Born 5/20/26, Bay Shore, N. Y.; BS (chem. eng.), RPI, 1947. Career path–engineering/technical; tenure–43 years, CEO 4 years. Compensation: 1989 salary & bonus, $405,000; ownership, 4,000 direct, 6,000 indirect shares. ▶ Self-described participative manager likes sailing, skiing. Gas supplier continues bringing in strong returns. His strategy: diversify gas supplies, promote use of natural gas in fuels. Former came in handy during last year's cold spell. Latter has him working with Big Three on natural-gas cars. Downside: gas prices still low.

BROWN GROUP

B. A. BRIDGEWATER JR.

St. Louis, Mo. *314-854-4000*

SALES: *$1.8 bil.* PROFITS: *$31 mil.*

MARKET VALUE: *$434 mil.*

▶ Born 3/13/34, Tulsa, Okla.; AB, Westminster, 1955; LLB, U. of Okla. Law, 1958; MBA, Harvard, 1964. Career path–administration; tenure–11 years, CEO 8 years. Compensation: 1989 salary & bonus, $593,000; ownership, 73,000 shares. ▶ Former associate director of OMB, he now runs leading shoemaker (Buster Brown), fabric retailer. Earnings pulled down last year by troubles at Campeau's retail empire, a major customer. So he cut costs, closed marginal stores, intalled new line managers, hiked ad budgets. Now, profits up nearly 50%.

BROWN-FORMAN

W. L. LYONS BROWN JR.

Louisville, Ky. *502-585-1100*

SALES: *$1 bil.* PROFITS: *$81 mil.*

MARKET VALUE: *$1.8 bil.*

▶ Born 8/22/36, Louisville, Ky.; BA, U. of Va., 1958; BS, American Grad. School Intl. Management, 1960. Career path–merchandising/marketing; tenure–30 years, CEO 15 years. Compensation: 1989 salary & bonus, $481,000; ownership, 8,000 direct, 59,000 indirect shares. ▶ He's diversified–into Lenox china, Hartmann luggage. But lately profits from those operations have been disappointing. Overseas demand has helped his liquor brands (Jack Daniel's, Southern Comfort). Big-gun GOP fundraiser heads Washington-based growth-company lobby.

BROWNING-FERRIS INDUSTRIES

WILLIAM DOYLE RUCKELSHAUS

Houston, Tex. *713-870-8100*

SALES: *$2.6 bil.* PROFITS: *$263 mil.*

MARKET VALUE: *$5.7 bil.*

▶ Born 7/24/32, Indianapolis, Ind.; BA, Princeton, 1957; LLB, Harvard Law, 1960. Career path–legal, government, general mgmt.; tenure–2 years, CEO 2 years. Compensation: 1989 salary & bonus, $1,166,000; ownership, 16,000 shares. ▶ Mr. Clean of garbage. Selling troubled hazardous waste unit (source of legal, regulatory woes), taking $295 million writeoff. Informal ex-politician wants to build fast-growing solid waste business, turning dump managers into model citizens. Dismantled lavish executive suite, works on accountants' floor.

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BRUNO'S

RONALD GREGORY BRUNO

Birmingham, Ala. *205-940-9400*

SALES: *$2.1 bil.* PROFITS: *$48 mil.*

MARKET VALUE: *$1.2 bil.*

▶ Born 12/24/51, Birmingham, Ala.; BS (business), U. of Ala., 1973. Career path–merchandising/marketing; tenure–17 years, CEO 4 months. Compensation: 1989 salary & bonus, $240,000; ownership, 361,000 shares. ▶ Taking over from founder dad, he's moving into the express lane. Expects to open 50 new outlets in next two years at this 230-store supermarket chain. Problem: American Fare, a joint venture in hypermarkets with K mart. First two stores are money-losers, but he still plans No. 3. Brother Ken, uncle Lee are also officers.

BRUNSWICK

JACK FRANK REICHERT

Skokie, Ill. *708-470-4700*

SALES: *$2.8 bil.* LOSS: *$71 mil.*

MARKET VALUE: *$816 mil.*

▶ Born 9/27/30, West Allis, Wis.; BA, U. of Wis. at Milwaukee, 1957. Career path–merchandising/marketing; tenure–33 years, CEO 8 years. Compensation: 1989 salary & bonus, $762,000; ownership, 527,000 direct, 3,000 indirect shares. ▶ Unpleasant times for this pleasure-boat maker. Earnings, sales, stock are shipping water. The problem: demand for boats is drying up fast as economy weakens. Continues asset sales, layoffs, plant closings. Ex-pin boy works off his frustrations at the local lanes–using company's bowling products.

BRUSH WELLMAN

HENRY G. PIPER

Cleveland, Ohio *216-443-1000*

SALES: *$318 mil.* PROFITS: *$19 mil.*

MARKET VALUE: *$302 mil.*

▶ Born 8/26/22, Englewood, N. J.; BS (mech. eng.), Mich. Tech., 1948; MBA, NYU, 1953. Career path–engineering/technical; tenure–32 years, CEO 9 months. Compensation: 1989 salary & bonus, NA[6]; ownership, 5,000 shares. ▶ Déjà vu: Gave up job two years ago, returned when successor was shown the door. Board wants more aggressive marketing for specialty metals company after disappointing '89. Off to a sluggish start in '90. Turnaround will be a challenge: Many markets he serves–auto, semiconductor, computer, defense–have seen better days.

BURLINGTON NORTHERN

GERALD GRINSTEIN

Fort Worth, Tex. *817-878-2000*

SALES: *$4.6 bil.* PROFITS: *$243 mil.*

MARKET VALUE: *$2.3 bil.*

▶ Born 6/26/32, Seattle, Wash.; BA, Yale, 1954; LLB, Harvard Law, 1957. Career path–legal; tenure–3 years, CEO 2 years. Compensation: 1989 salary & bonus, $1,460,000; ownership, 223,000 direct, 1,000 indirect shares. ▶ Accessible former airline boss who likes to ride the rails to chat with employees. Slashed debt by more than $500 million. Brought in a slew of new managers to help. Aggressively marketing guaranteed prices and delivery six months in advance, touting computer that allows customers to evaluate transportation options.

BURLINGTON RESOURCES

THOMAS HOWARD O'LEARY

Seattle, Wash. *206-467-3838*

SALES: *$1.7 bil.* PROFITS: *$147 mil.*

MARKET VALUE: *$6.2 bil.*

▶ Born 3/19/34, New York, N. Y.; BA, Holy Cross, 1954; MBA, Wharton, 1961. Career path–finance/accounting; tenure–8 years, CEO 2 years. Compensation: 1989 salary & bonus, $1,050,000; ownership, 36,000 shares. ▶ Private man, flies a private plane for fun. Heads natural-resources spin-off from Burlington Northern. Long-term strategy is to continue expanding natural gas, divest other businesses. Raised $650 million by selling timberland holdings last year. Now, seeks buyers for real estate, mining, hazardous waste-handling businesses.

C&S/SOVRAN

BENNETT A. BROWN

Atlanta, Ga. *404-581-2121*

SALES: *$2.4 bil.* PROFITS: *$238 mil.*

MARKET VALUE: *$1.3 bil.*

▶ Born 6/1/29, Kingstree, S. C.; BS (business admin.), Presbyterian, 1950. Career path–finance/accounting; tenure–35 years, CEO 11 years. Compensation: 1989 salary & bonus, $983,000; ownership, 53,000 direct, 57,000 indirect shares. ▶ Least-mourned casualty of 1990: Avantor–the name originally selected for his merger with Virginia's Sovran Financial. The new bank–with a new name–has assets of $50 billion and is now a major Southeast player. He's likely to retire in South Carolina when the deal is final and operations are running smoothly.

CABLETRON SYSTEMS

STUART ROBERT LEVINE

Rochester, N. H. *603-332-9400*

SALES: *$105 mil.* PROFITS: *$22 mil.*

MARKET VALUE: *$417 mil.*

▶ Born 1/29/58, Worcester, Mass.; BS (business), U. of Miami, 1980. Career path–merchandising/marketing; tenure–8 years, CEO 8 years. Compensation: 1989 salary & bonus, $1,091,000; ownership, 9,402,000 direct, 260,000 indirect shares. ▶ Weightlifter sports 17.5-inch biceps, keeps 40 lb. dumbbells in [illegible] to use while he's on the phone–usually selling company's [illegible]-the-art computer networks. Weekends, he's either pilot[illegible]ot Soldier of Fortune or riding one of two Harley hogs. [illegible]vel on company time; salesmen who do get fired.

CABLEVISION SYSTEMS

CHARLES F. DOLAN

Woodbury, N. Y. *516-364-8450*

SALES: *$493 mil.* LOSS: *$154 mil.*

MARKET VALUE: *$397 mil.*

▶ Born 10/16/26, Cleveland, Ohio; attended John Carroll. Career path–entrepreneur; tenure–17 years, CEO 5 years. Compensation: 1989 salary & bonus, $1,075,000; ownership, 612,000 shares.[7] ▶ They say cable pioneer's a visionary–so what's he seeing? A big threat to cable. He's linking up with News Corp., Hughes, NBC to develop Sky Cable satellite service to send 100-plus channels direct to small home dishes. In meantime, he and rest of industry fret about specter of reregulation, and his losses mount as cable matures.

THE CORPORATE ELITE

CABOT

SAMUEL W. BODMAN

Waltham, Mass. *617-890-0200*

SALES: *$1.9 bil.* LOSS: *$7 mil.*

MARKET VALUE: *$704 mil.*

▶ Born 11/26/38, Chicago, Ill.; BS (chem. eng.), Cornell, 1961; PhD (chem. eng.), MIT, 1964. Career path–eng./tech., investment mgmt./vent. cap.; tenure–4 years, CEO 3 years. Compensation: 1989 salary & bonus, $442,000; ownership, 248,000 direct, 12,000 indirect shares.[7] ▶ Genial former head of Fidelity Management stood chemical firm on its ear by cleaning out management ranks, partially spinning off subsidiaries. Yet demand for biggest product, carbon black, still weak, and key tire industry is declining. Now looking elsewhere: safety eyewear.

CABOT OIL & GAS

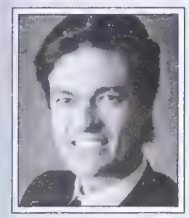
CHARLES P. SIESS JR.

Houston, Tex. *713-589-4600*

SALES: *$106.3 mil.*[5] PROFITS: *$15.1 mil.*[5]

MARKET VALUE: *$350 mil.*

▶ Born 1/28/27, Lake Charles, La.; BS (chem. eng.), La. State, 1948. Career path–engineering/technical; tenure–9 months, CEO 9 months. Compensation: 1989 salary & bonus, NA[6]; ownership, 50,000 shares. ▶ His company, spun off by carbon-black maker Cabot, is one of nation's best-fixed natural gas producers. Production sources in Anadarko Basin, Appalachia, give it 19-year reserve life, vs. industry average of under 10. With shallow wells, efficient, too: Company-owned gathering, pipeline systems. Just back from hunting in Mexico.



CADENCE DESIGN SYSTEMS

JOSEPH BALL COSTELLO

San Jose, Calif. *408-943-1234*

SALES: *$143 mil.* PROFITS: *$28 mil.*

MARKET VALUE: *$612 mil.*

▶ Born 12/6/53, Norwalk, Conn.; BS (math, physics), Harvey Mudd, 1974; MS (physics), Yale, 1975. Career path–engineering/technical; tenure–6 years, CEO 2 years. Compensation: 1989 salary & bonus, $514,000; ownership, 160,000 shares. ▶ Fun-loving boss runs hot electronic-design software company. Sales expected to grow by about 50% this year, far faster than the industry. Now, he wants to sell software not just for chip-making but also for designing entire computers. Watch out: Much larger Mentor Graphics, strong in both, is gunning for him.

CAESARS NEW JERSEY

HENRY GLUCK

Los Angeles, Calif. *213-552-2711*

SALES: *$343 mil.* PROFITS: *$36 mil.*

MARKET VALUE: *$356 mil.*

▶ Born 5/11/28, Aurich, Germany; BS (econ., fin., intl. trade), Wharton, 1950. Career path–general mgmt.; tenure–8 years, CEO 8 years. Compensation: 1989 salary & bonus, $1,326,000; ownership, none.[8] ▶ Lawsuit slowed his efforts to buy 80% he didn't own, but now the deal is going ahead. Should be a wholly-owned subsidiary of Los Angeles-based Caesars by November. Settlement cost: $543,000. Meanwhile, things aren't going so great in Jersey: Trump's new Taj Mahal siphoning away business in an already weak environment. Earnings off 31%.

CAESARS WORLD

HENRY GLUCK

Los Angeles, Calif. *213-552-2711*

SALES: *$902 mil.* PROFITS: *$67 mil.*

MARKET VALUE: *$313 mil.*

▶ Born 5/11/28, Aurich, Germany; BS (econ., fin., intl. trade), Wharton, 1950. Career path–general mgmt.; tenure–8 years, CEO 8 years. Compensation: 1989 salary & bonus, $1,326,000; ownership, 50,000 direct, 175,000 indirect shares. ▶ Raising stakes in Atlantic City, Las Vegas with $290 million expansion program, tendering for rest of New Jersey affiliate he doesn't own. Facelift helps him compete with Trump's Taj Mahal, Golden Nugget's Mirage. Hedging bets, he's marketing a fragrance line, will manage Japanese-owned Nevada resort.

CALGON CARBON

THOMAS ARTHUR MCCONOMY

Robinson Twp., Pa. *412-787-6700*

SALES: *$253 mil.* PROFITS: *$35 mil.*

MARKET VALUE: *$765 mil.*

▶ Born 7/26/33, Wilmerding, Pa.; BS (chem. eng.), Carnegie-Mellon, 1955. Career path–engineering/technical, merchandising/marketing; tenure–35 years, CEO 5 years. Compensation: 1989 salary & bonus, $416,000; ownership, 55,000 direct, 15,347,000 indirect shares. ▶ Off hours, he's renovating 129-year-old suburban mansion. Water- and food-purification company doesn't need renovating. Demand from governments, food companies soaring. Cash-rich, he spends heavily on R&D, expanding here and abroad. Biggest danger: production glitches.

CALMAT

A. FREDERICK GERSTELL

Los Angeles, Calif. *213-258-2777*

SALES: *$682 mil.* PROFITS: *$78 mil.*

MARKET VALUE: *$927 mil.*

▶ Born 2/6/38, New York, N. Y.; AB (liberal arts), Princeton, 1960. Career path–merchandising/marketing; tenure–15 years, CEO 3 years. Compensation: 1989 salary & bonus, $708,000; ownership, 36,000 indirect shares.[7] ▶ California is launching a campaign to improve roads and bridges–which means buying tons of his aggregates, asphalt, concrete. He wants to sell developable real estate in southern part of state. But he's also able to turn some tapped-out pits into non-hazardous waste landfills. A sportsman, he's into skeet shooting.

CAMPBELL SOUP

DAVID WILLIS JOHNSON

Camden, N. J. *609-342-4800*

SALES: *$5.7 bil.* PROFITS: *$13 mil.*

MARKET VALUE: *$6.5 bil.*

▶ Born 8/7/32, Tumut, N. S. W., Australia; BS (econ.), U. of Sydney, 1954; MBA (indust. relations), U. of Chicago, 1958. Career path–merchandising/marketing; tenure–9 months, CEO 9 months. Compensation: 1989 salary & bonus, NA[6]; ownership, 100,000 direct, 3,000 indirect shares. ▶ Spirited new chief a charmer with tough assignment: Repeat turnaround he managed at Gerber. Toughest challenge may be pleasing factions of founding Dorrance family, some of whose members want to sell out. Big believer in team management. Selling assets.

THE CORPORATE ELITE

CAPITAL CITIES/ABC

DANIEL B. BURKE

New York, N. Y. *212-456-7777*

SALES: *$5 bil.* PROFITS: *$486 mil.*

MARKET VALUE: *$8.3 bil.*

▶ Born 2/4/29, Albany, N. Y.; BA, U. of Vt., 1950; MBA, Harvard, 1955. Career path–broadcasting/publishing; tenure–29 years, CEO 4 months. Compensation: 1989 salary & bonus, $1,043,000; ownership, 48,000 shares. ▶ Succeeded Tom Murphy, his 30-year partner. Doing well given the current soft ad market. TV network now No. 1 in news, just might pass NBC for top overall ratings honors soon. His management style: Give 'em goals, and leave 'em alone. His toughest challenge: Find a successor, since he and Murphy are both in their 60s.

CAPITAL HOLDING

IRVING WIDMAR BAILEY II

Louisville, Ky. *502-560-2000*

SALES: *$2.5 bil.* PROFITS: *$276 mil.*

MARKET VALUE: *$1.9 bil.*

▶ Born 6/8/41, Cambridge, Mass.; BA (French), U. of Colo., 1963; MBA, NYU, 1968. Career path–finance; tenure–10 years, CEO 2 years. Compensation: 1989 salary & bonus, $1,295,000; ownership, 63,000 shares. ▶ Unpleasant surprise last year when he learned that head of his fastest-growing unit was planning competing business. Despite resignations of two key officers, he hasn't skipped a beat. Earnings healthy on investment contracts, credit cards, life insurance. Not so in losing property-casualty. Needs to stiffen weak direct-response sales.

CARNIVAL CRUISE LINES

MICKY ARISON

Miami, Fla. *305-599-2600*

SALES: *$1.1 bil.* PROFITS: *$194 mil.*

MARKET VALUE: *$2.4 bil.*

▶ Born 6/29/49, Tel Aviv, Israel; attended U. of Miami. Career path–merchandising/marketing; tenure–16 years, CEO 11 years. Compensation: 1989 salary & bonus, $650,000; ownership, 2,026,000 indirect shares.[8] ▶ Freewheeling cruise tycoon's Bahamas Crystal Palace Resort finally opened, as did his splashy new headquarters. But shipyard building three new liners went bankrupt, delaying deliveries. All this while two other ships were laid up being refurbished. In spite of the lost bookings, he should still top last year's results.

CAROLINA POWER & LIGHT

SHERWOOD H. SMITH JR.

Raleigh, N. C. *919-546-6111*

SALES: *$2.5 bil.* PROFITS: *$376 mil.*

MARKET VALUE: *$3.2 bil.*

▶ Born 9/1/34, Jacksonville, Fla.; AB (econ.), U. of N. C., 1956; JD, U. of N. C. Law, 1960. Career path–legal; tenure–25 years, CEO 11 years. Compensation: 1989 salary & bonus, $412,000; ownership, 23,000 direct, 4,000 indirect shares. ▶ He's returned utility to normal–predictable, slow growth. No mean feat after troubles at new Harris nuke plant, which cost $4 billion. Sticks to electricity, shuns diversification. Some good news: Population growth and employment levels outperforming national average in his territory. He likes duck hunting, tennis.

CARPENTER TECHNOLOGY

PAUL R. ROEDEL

Reading, Pa. *215-371-2000*

SALES: *$634 mil.* PROFITS: *$29 mil.*

MARKET VALUE: *$379 mil.*

▶ Born 6/15/27, Millville, N. J.; BS (accounting), Rider, 1948. Career path–finance/accounting; tenure–42 years, CEO 10 years. Compensation: 1989 salary & bonus, $390,000; ownership, 23,000 direct, 4,000 indirect shares. ▶ His $400 million restructuring of this specialty steelmaker is paying off. Enjoying record profits (up 8%) on shrinking sales (off 8%). How come? He's moving out of lower-margin lines and into high-tech applications for his stainless and alloy products. Reads voraciously–everything from news to historical novels.

CARTER-WALLACE

HENRY H. HOYT JR.

New York, N. Y. *212-339-5000*

SALES: *$555 mil.* PROFITS: *$50 mil.*

MARKET VALUE: *$724 mil.*

▶ Born 8/10/27, Orange, N. J.; AB, Princeton, 1949. Career path–marketing; tenure–40 years, CEO 15 years. Compensation: 1989 salary & bonus, $1,160,000; ownership, 3,000 direct, 3,935,000 indirect shares.[8] ▶ Plays it very close to the vest. Doing best with health care products lately, including at-home tests for pregnancy, blood-glucose levels. Can count on continued profits from Arrid deodorant, wide range of other consumer products. Condom sales shot up with introduction of new varieties, some marketed to women.

CASTLE & COOKE

DAVID H. MURDOCK

Los Angeles, Calif. *213-824-1500*

SALES: *$2.7 bil.* PROFITS: *$95 mil.*

MARKET VALUE: *$1.9 bil.*

▶ Born 4/10/23, Kansas City, Mo. Career path–finance/accounting, entrepreneur; tenure–5 years, CEO 5 [illegible]. Compensation: 1989 salary & bonus, $1,300,000; owner-[illegible]3,204,000 direct, 81,000 indirect shares. ▶ High school drop-[illegible] into custom suits, gourmet food, antiques. This old-line Ha-[illegible] company (Dole, land) one of his many investments. Planned [illegible]dit it into two units until tax glitches, tight credit stopped [illegible] pursuing Dole sale. Likes the good life: Launched exclu-[illegible]cy Club, weekends at his Ventura County ranch.

CATERPILLAR

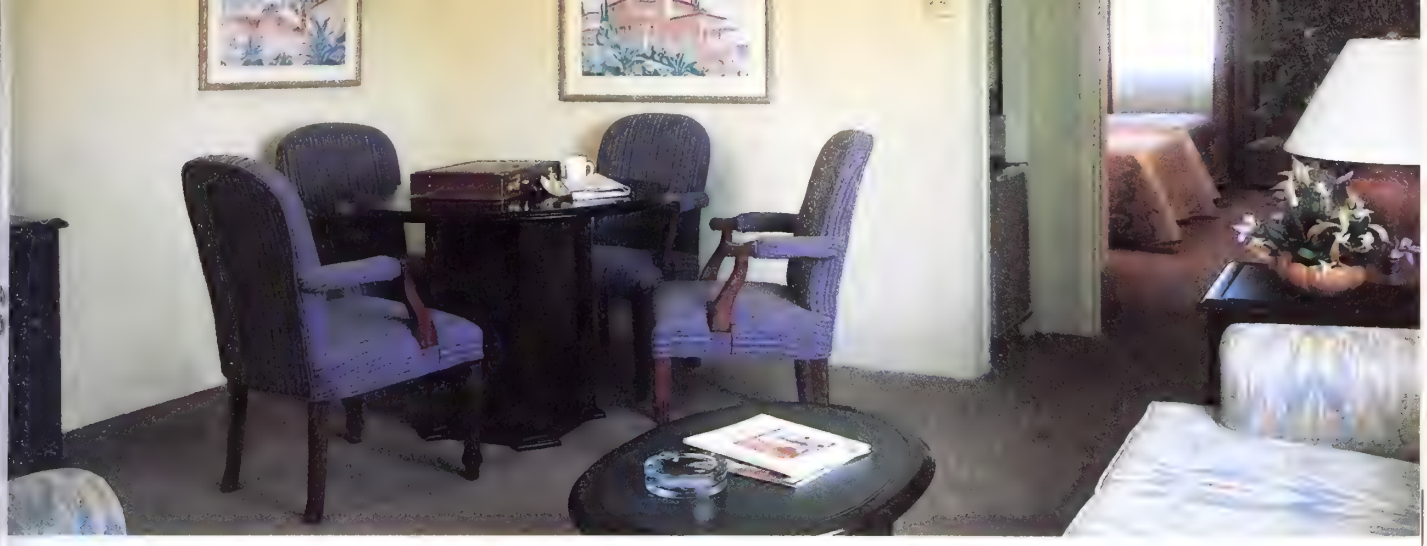
DONALD V. FITES

Peoria, Ill. *309-675-1000*

SALES: *$11.1 bil.* PROFITS: *$497 mil.*

MARKET VALUE: *$4.4 bil.*

▶ Born 1/20/34, Tippecanoe, Ind.; BS (civil eng.), Valparaiso, 1956; MS (mgmt.), MIT, 1971. Career path–merchandising/marketing; tenure–34 years, CEO 3 months. Compensation: 1989 salary & bonus, $520,000; ownership, 10,000 shares. ▶ Speaks a bit of Japanese, but should he study Portuguese? Just after he took over losses at Brazilian operations–which once produced 25% of profits–sent share prices tumbling. Now, if the U. S. economy falters, he's in bigger trouble: A major capital spending program may have to be postponed. Into aerobics.



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CBI INDUSTRIES

JOHN E. JONES

Oak Brook, Ill. *708-572-7000*

SALES: *$1.5 bil.* PROFITS: *$34 mil.*

MARKET VALUE: *$734 mil.*

▶ Born 6/24/34, Kansas City, Mo.; BS (business), Carleton, 1956. Career path–finance/accounting; tenure–11 years, CEO 1 year. Compensation: 1989 salary & bonus, $542,000; ownership, 34,000 direct, 2,000 indirect shares. ▶ Boss of what once was Chicago Bridge & Iron, Liquid Carbonic wants to boost profits by concentrating on higher-margined areas such as specialized construction. (He made new deck sections for Golden Gate Bridge.) Closed French subsidiary, divested much of water-treatment business. Ex-banker, bird-watcher.

CELLULAR COMMUNICATIONS

WILLIAM BRUCE GINSBERG

New York, N. Y. *212-319-7014*

SALES: *$84 mil.* LOSS: *$17 mil.*

MARKET VALUE: *$969 mil.*

▶ Born 3/11/44, Childress, Tex.; BA (math., 1966), PhD (econ., 1971), Harvard. Career path–academia/communications; tenure–9 years, CEO 9 years. Compensation: 1989 salary & bonus, $233,000; ownership, 336,000 direct, 58,000 indirect shares. ▶ Ex-FCC bureaucrat joined high school buddy to build cellular network covering most Ohio metro areas, plus Puerto Rico. Now, he'll merge Ohio systems with Pacific Telesis' Michigan holdings, creating combo with population to rival New York, Los Angeles. Deal gives PacTel 5% stake, option on rest.

CENTERIOR ENERGY

RICHARD A. MILLER

Independence, Ohio *216-447-3100*

SALES: *$2.3 bil.* PROFITS: *$333 mil.*

MARKET VALUE: *$2.3 bil.*

▶ Born 2/9/27, Cleveland, Ohio; BBA, Western Reserve, 1950; LLB, Harvard Law, 1953. Career path–finance/accounting; tenure–30 years, CEO 2 years. Compensation: 1989 salary & bonus, $418,000; ownership, 16,000 direct, 2,000 indirect shares. ▶ Last year, this Lake Erie yachtsman is quick to point out, shares in his utility provided a 65% total return–tops in the industry. But though cash flow is still up, demand, earnings, and stock price are down, and a dividend increase is on hold. He's pushing early retirement. In July, 600 employees opted out.

CENTOCOR

HUBERT J. P. SCHOEMAKER

Malvern, Pa. *215-296-4488*

SALES: *$72 mil.* PROFITS: *$115,000*

MARKET VALUE: *$425 mil.*

▶ Born 3/23/50, Deventer, Netherlands; BS (chem., econ.), Notre Dame, 1972; PhD (biochemistry), MIT, 1975. Career path–technical; tenure–10 years, CEO 3 years. Compensation: 1989 salary & bonus, $334,000; ownership, 157,000 shares. ▶ Biotech hotshot's co-founder has had good news lately. Centoxin, a drug based on a monoclonal antibody, did well in tests. Building one plant full tilt, building another, to make the stuff. Cloud: patent-infringement lawsuit by rival Xoma. He collects 17th century Dutch paintings, plays golf and tennis.

CBS

LAURENCE ALAN TISCH

New York, N. Y. *212-975-4321*

SALES: *$3 bil.* PROFITS: *$297 mil.*

MARKET VALUE: *$4.1 bil.*

▶ Born 3/15/23, New York, N. Y.; BS, NYU, 1942; MA (ind. eng.), U. of Pa., 1943. Career path–entrepreneur; tenure–4 years, CEO 4. Compensation: 1989 salary & bonus, $1,326,000[8]; ownership, 5,857,000 indirect shares.[8] ▶ Says he's in no hurry to spend $2.9 billion hoard from sales of record and other units. But maybe he should be. Net's still No. 3, with only three series last season in top 20, and news division has slipped. Now, ponying up for sports, movies; could lose $100 million on four-year baseball contract alone. Denies rumors of Disney merger.

CENTEL

JOHN P. FRAZEE JR.

Chicago, Ill. *312-399-2500*

SALES: *$1.2 bil.* PROFITS: *$11 mil.*

MARKET VALUE: *$2.1 bil.*

▶ Born 9/14/44, Staunton, Va.; BA (polit. sci.), Randolph-Macon, 1966. Career path–operations; tenure–19 years, CEO 3 years. Compensation: 1989 salary & bonus, $998,000; ownership, 36,000 direct, 9,000 indirect shares. ▶ Horseback rider in saddle of fifth-largest non-Bell phone operator, but he's spurring big move into cellular. To pay for it, he sold pieces of the company–cable TV, business systems group. Snapped up cellular licenses in New Mexico. In joint venture, won license to operate cellular network in Mexico.

CENTEX

LAURENCE E. HIRSCH

Dallas, Tex. *214-559-6500*

SALES: *$2.1 bil.* PROFITS: *$62 mil.*

MARKET VALUE: *$435 mil.*

▶ Born 12/19/45, New York, N.Y.; BS (econ.), Wharton, 1968; JD, Villanova Law, 1971. Career path–legal; tenure–6 years, CEO 2 years. Compensation: 1989 salary & bonus, $643,000; ownership, 1,000 shares.[7] ▶ Runs nation's largest builder of single-family homes. With overall housing demand down, he expects to gain market share–and probably post record earnings. Also does industrial contracting, sells construction products, runs profitable Texas S&L. Aspiring linguist, too. Last year, he was learning Spanish; now, it's Japanese.

CENTRAL & SOUTH WEST

MERLE LLOYD BORCHELT

Dallas, Tex. *214-754-1000*

SALES: *$2.5 bil.* PROFITS: *$337 mil.*

MARKET VALUE: *$3.5 bil.*

▶ Born 1/4/26, Mercedes, Tex.; BS (elect. eng.), La. Tech., 1949. Career path–engineering/technical; tenure–41 years, CEO 2 years. Compensation: 1989 salary & bonus, $447,000; ownership, 13,000 shares. ▶ Heading for retirement early in 1991, he's smoothing the path for his successor. Final approval of a rate hike is expected soon and should ease headaches with $2.3 billion South Texas nuke plant. He also restructured management, giving subsidiaries more authority. Waiting in the wings is President Dick Brooks, a longtime company veteran.

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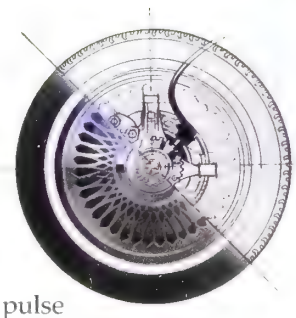

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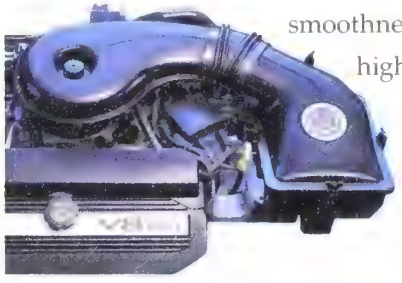

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CARROLL L. SAINE

Richmond, Va. *804-782-4000*

SALES: *$537 mil.* PROFITS: *$54 mil.*

MARKET VALUE: *$389 mil.*

▶ Born 9/14/34, Lincolnton, N. C.; BA, Lenoir Rhyne, 1954; MS (business admin.), U. of Richmond, 1965. Career path–finance/accounting; tenure–33 years, CEO 15 years. Compensation: 1989 salary & bonus, $475,000; ownership, 31,000 shares. ▶ Likable and funny, he's a bear on teamwork and personal service at his innovative bank. Spends a lot of time visiting branches, pressing the flesh, giving pep talks. Puts scores of mini-branches in shopping strips, malls. Good gardener and good cook, he supports minority education with scholarship money.

CENTRAL HUDSON GAS & ELECTRIC

JOHN E. MACK III

Poughkeepsie, N. Y. *914-452-2000*

SALES: *$470 mil.* PROFITS: *$39 mil.*

MARKET VALUE: *$319 mil.*

▶ Born 2/20/34, Poughkeepsie, N. Y.; BS (finance, 1956), MBA (econ., 1966), Siena. Career path–finance/accounting, human res.; tenure–32 years, CEO 4 years. Compensation: 1989 salary & bonus, $181,000; ownership, 5,000 shares. ▶ He serves 300,000 customers (including IBM) in a relatively fast-growing semi-rural area. Though earnings have been weak lately, just received approval to boost electric rates, request on file to boost gas rate, too. He's also cut dependence on oil (once 95%) to just over 40%–still uncomfortably high since Gulf crisis.

CENTRAL ILLINOIS PUBLIC SERVICE

CLIFFORD L. GREENWALT

Springfield, Ill. *217-523-3600*

SALES: *$605 mil.* PROFITS: *$71 mil.*

MARKET VALUE: *$675 mil.*

▶ Born 1/12/33, Licking, Mo.; BS (civil eng.), U. of Mo., 1960; MBA, U. of Ill., 1977. Career path–engineering/technical; tenure–27 years, CEO 1 year. Compensation: 1989 salary & bonus, $193,000; ownership, 2,000 direct, 5,000 indirect shares. ▶ Wants to increase diversification, but behind the pack. Just proposed holding-company structure–something many in his industry already have. Tougher clean-air rules pose a problem, and he's threatened a massive rate increase. Jousting with regulators over refund stemming from cut in federal taxes.

CENTRAL LOUISIANA ELECTRIC

SCOTT O. BRAME

Pineville, La. *318-484-7400*

SALES: *$316 mil.* PROFITS: *$42 mil.*

MARKET VALUE: *$377 mil.*

▶ Born 6/12/28, Alexandria, La.; BS (accounting), La. State, 1949. Career path–finance/accounting; tenure–41 years, CEO 2 years. Compensation: 1989 salary & bonus, $200,000; ownership, 10,000 direct, 1,000 indirect shares.[7] ▶ Methodical executive's utility suffers from drooping state economy. He's cut expenses, kept finances in good shape. Also hedged fuel supply by relying on mix of lignite, coal, oil, natural gas. Now that economy is showing signs of life, he's got to gauge how much capacity he'll need in mid- to late-1990s.

CENTRAL MAINE POWER

JOE C. COLLIER JR.

Augusta, Me. *207-623-3521*

SALES: *$704 mil.* PROFITS: *$49 mil.*

MARKET VALUE: *$450 mil.*

▶ Born 11/5/34, Atlanta, Ga.; BS (indust. mgmt.), Tenn. Tech., 1958. Career path–sales/marketing/cust. svce.; tenure–1 year, CEO 1 year. Compensation: 1989 salary & bonus, $188,000; ownership, 2,000 shares. ▶ Awash on rock-bound regulatory coast, needs lots of purchased power (30% now vs. 1% in 1980), but rules only allow profits from electricity he generates. Earnings down in five of last eight quarters. Moved to New England from Florida and getting into outdoors scene. Skis, fishes, paddles wood-ribbed 16-footer on Lake Cobbossee.

CENTRAL NEWSPAPERS

FRANK E. RUSSELL

Indianapolis, Ind. *317-633-9252*

SALES: *$436 mil.* PROFITS: *$38 mil.*

MARKET VALUE: *$414 mil.*

▶ Born 12/6/20, Kokomo, Ind.; AB (business), U. of Evansville, 1942; JD, Ind. Law, 1951. Career path–finance/accounting, legal; tenure–31 years, CEO 12 years. Compensation: 1989 salary & bonus, $393,000; ownership, 281,000 shares. ▶ He faces flat circulation, falling ad revenues in Phoenix, Indianapolis. Also works very much in the public eye: Dan Quayle's family controls this newspaper chain, which went public last year when some members–but not the Veep–wanted to sell. The timing was good, since all media stocks have since slumped.

CENTURY COMMUNICATIONS

LEONARD TOW

New Canaan, Conn. *203-966-8746*

SALES: *$191 mil.* LOSS: *$36 mil.*

MARKET VALUE: *$425 mil.*

▶ Born 5/30/28, Brooklyn, N. Y.; AB (econ.), Brooklyn, 1950; MA (1952), PhD (1960), Columbia. Career path–management, finance; tenure–17 years, CEO 17 years. Compensation: 1989 salary & bonus, $1,671,000; ownership, 22,846,000 direct, 946,000 indirect shares. ▶ Ex-economics professor launched ill-managed cable-TV company on his dining-room table. Look- for more cellular-phone companies. Bought into Citizens Util- s, which has cellular operations–and which he's now running. f theater, classical music, Art Nouveau.

CENTURY TELEPHONE ENTERPRISES

CLARKE M. WILLIAMS JR.

Monroe, La. *318-388-9590*

SALES: *$213 mil.* PROFITS: *$22 mil.*

MARKET VALUE: *$753 mil.*

▶ Born 9/10/49, Shreveport, La.; attended Northeast La. Career path–management; tenure–20 years, CEO 1 year. Compensation: 1989 salary & bonus, $446,000; ownership, 15,000 direct, 21,000 indirect shares. ▶ Reclaimed his old job after his successor-son suffered a stroke. Molded a once-small collection of rural phone companies into a telecommunications powerhouse with stakes in cellular and paging. Current goal: developing rural cellular markets next to metro areas he serves in Louisiana and Pennslyvania. On the prowl for acquisitions.

THE CORPORATE ELITE

CHAMBERS DEVELOPMENT

JOHN G. RANGOS SR.

Pittsburgh, Pa. *412-242-6237*

SALES: *$182 mil.* PROFITS: *$27 mil.*

MARKET VALUE: *$1.1 bil.*

▶ Born 7/27/29, Steubenville, Ohio; attended Houston Business. Career path–waste & security services; tenure–30 years, CEO 20 years. Compensation: 1989 salary & bonus, $386,000; ownership, 18,641,000 direct, 6,730,000 indirect shares.[7] ▶ Titan of trash. His waste-disposal firm well-managed, growing fast. Family holdings worth $530 million. Known for old-style hands-on management, surprise visits to disposal sites. Challenges: Win environmentalists' support, avoid locations with pollution problems. Active: Lifts weights, swims, golfs, plays tennis.

CHAMPION INTERNATIONAL

ANDREW C. SIGLER

Stamford, Conn. *203-358-7000*

SALES: *$5.2 bil.* PROFITS: *$432 mil.*

MARKET VALUE: *$2.5 bil.*

▶ Born 9/25/31, Brooklyn, N. Y.; AB, Dartmouth, 1953; MBA, Amos Tuck (Dartmouth), 1956. Career path–merchandising/marketing; tenure–33 years, CEO 16 years. Compensation: 1989 salary & bonus, $1,225,000; ownership, 96,000 shares. ▶ Vocal critic of clamor for short-term gains. Found a pal in Warren Buffett, who paid $300 million for new convertible shares last fall. Yet his papermaker still underachieving. Income fell 11% last year, and capital spending is straining balance sheet. To get away from it all, he pilots a private plane.

CHARMING SHOPPES

DAVID V. WACHS

Bensalem, Pa. *215-245-9100*

SALES: *$809 mil.* PROFITS: *$36 mil.*

MARKET VALUE: *$407 mil.*

▶ Born 4/26/26, Philadelphia, Pa.; BS (business), Wharton, 1948. Career path–merchandising/marketing; tenure–40 years, CEO 3 years. Compensation: 1989 salary & bonus, $339,000; ownership, 1,798,000 shares. ▶ Net income is sliding, and competition abounds. Member of retail chain's founding family is focusing on working women, away from junior and missy styles. Store-image, fashion, and quality upgrades are under way at its 1,000 Fashion Bug outlets. Still, women's clothing market has been soft for three years. Analysts are cautious.

CHEMICAL BANKING

WALTER V. SHIPLEY

New York, N. Y. *212-310-6161*

SALES: *$8.2 bil.* LOSS: *$482 mil.*

MARKET VALUE: *$2 bil.*

▶ Born 11/2/35, Newark, N. J.; BS, NYU, 1961. Career path–corp. lending; tenure–34 years, CEO 7 years. Compensation: 1989 salary & bonus, $1,120,000; ownership, 19,000 direct, 18,000 indirect shares. ▶ The rumor mill was working overtime early this year. Some wondered whether his bank would survive. Reason: dismal showing last year because of bad real estate loans in Texas, New Jersey. His aggressive expansion strategy is on hold while he cleans up the mess, gets costs under control. Bad loans actually declining for now.

CHASE MANHATTAN

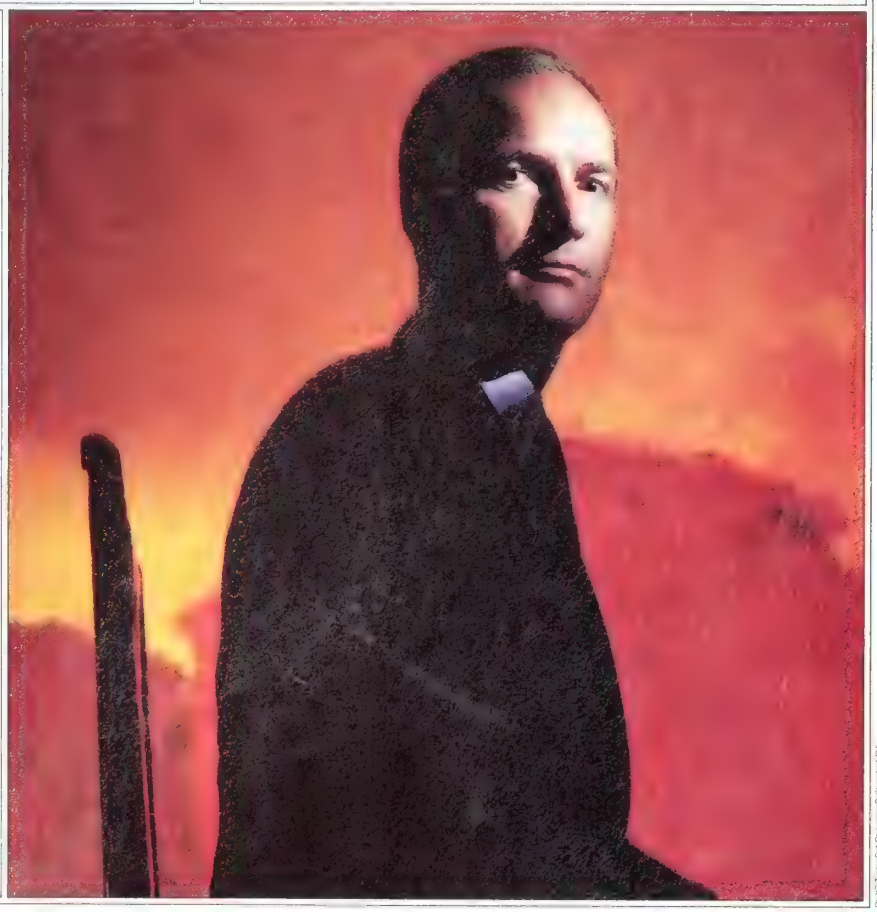
THOMAS G. LABRECQUE

New York, N. Y. *212-552-2222*

SALES: *$13.9 bil.* LOSS: *$665 mil.*

MARKET VALUE: *$2.2 bil.*

▶ BORN 9/17/38, LONG BRANCH, N. J.; BA, VILLANOVA, 1960. CAREER PATH—FINANCE/ACCOUNTING; TENURE—26 YEARS, CEO 1 MONTH. COMPENSATION: 1989 SALARY & BONUS, $942,000; OWNERSHIP, 47,000 SHARES. ▶ COOL CAREER MAN TAKES OVER NO. 2 U. S. BANK AT TROUBLED TIME: BAD REAL ESTATE LOANS CONTINUE TO DOG EARNINGS, PREDECESSOR'S BOLD MOVE TO WRITE OFF BAD LOANS, BUILD RESERVES HASN'T YET PAID OFF. HE'LL WRITE OFF MORE, CUT STAFF DRASTICALLY. COMES WITH GREAT CRISIS CREDENTIALS: HE WAS DAVID ROCKEFELLER'S HAND-PICKED DEPUTY DURING NEW YORK'S LAST FISCAL MESS IN 1970'S, HELPED SET UP MUNICIPAL ASSISTANCE CORP. (MAC). EARLY FORESIGHT IN URGING BIG COMMITMENT TO RETAIL BANKING, NOW BANK'S MOST PROFITABLE ACTIVITY, PAID OFF IN PROMOTION. AN EX-JOCK AND ALL-AROUND SPORTS ENTHUSIAST, HE LOVES SPORTS TRIVIA.



PHOTOGRAPH BY CHRIS WADE

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CHEMICAL WASTE MANAGEMENT

JERRY E. DEMPSEY

Oak Brook, Ill. *708-218-1500*

SALES: *$892 mil.* PROFITS: *$144 mil.*

MARKET VALUE: *$4.5 bil.*

▶ Born 10/1/32, Landrum, S. C.; BS (mech. eng.), Clemson, 1954; MBA, Ga. State, 1967. Career path–merchandising/marketing; tenure–6 years, CEO 4 years. Compensation: 1989 salary & bonus, $587,000; ownership, 80,000 direct, 4,000 indirect shares. ▶ Where you see noxious waste, he sees profit potential. A new subsidiary intended to serve federal facilities will soon try to snare contracts for work at the Rocky Flats nuclear site. When he isn't at the office or the dump, however, check the golf course–and look for someone with an 11 handicap.

CHESAPEAKE

JOSEPH CARTER FOX

Richmond, Va. *804-697-1000*

SALES: *$813 mil.* PROFITS: *$48 mil.*

MARKET VALUE: *$359 mil.*

▶ Born 9/8/39, Petersburg, Va.; BS (physics, eng.), Washington & Lee, 1961; MBA, U. of Va., 1963. Career path–finance/accounting, corp. planning & dev.; tenure–31 years, CEO 10 years. Compensation: 1989 salary & bonus, $516,000; ownership, 100,000 direct, 23,000 indirect shares. ▶ Fox hunter in full cry after turning stodgy box maker into nimble specialty pulp, paper purveyor with festive party-goods division. Pressing managers to up capacity, boost efficiency, but what'll he really do for an encore? At home, into woodworking, fishing.

CHEVRON

KENNETH TINDALL DERR

San Francisco, Calif. *415-894-7700*

SALES: *$29.4 bil.* PROFITS: *$251 mil.*

MARKET VALUE: *$26.9 bil.*

▶ Born 8/4/36, Wilkes Barre, Pa.; BS (mech. eng., 1959), MBA (1960), Cornell. Career path–management; tenure–30 years, CEO 2 years. Compensation: 1989 salary & bonus, $948,000; ownership, 60,000 shares.[8] ▶ Feeling the heat since Pennzoil's Hugh Liedtke bought in last year. Struck back by strengthening takeover defenses and suing Pennzoil, which he claims wants a bust-up. Trying to trim the fat, speed up sale of marginal properties. Tall, hefty boss was a high school tennis champ. Now he plays golf, is an avid domino player.

CHILI'S

NORMAN BRINKER

Dallas, Tex. *214-980-9917*

SALES: *$285 mil.* PROFITS: *$14 mil.*

MARKET VALUE: *$312 mil.*

▶ Born 6/2/31, Denver, Colo.; BS (marketing), San Diego State, 1957. Career path–marketing; tenure–7 years, CEO 7 years. Compensation: 1989 salary & bonus, $238,000; ownership, 486,000 direct, 34,000 indirect shares. ▶ This two-goal polo player and Olympian can gallop all the way to the bank. Earnings at his fast-food chain are growing at 20% annually–two or three times faster than rival McDonald's, according to some estimates. He's making acquisitions with gusto, too: Recent additions include Grady's, Romano's Macaroni Grill.

CHIQUITA BRANDS INTERNATIONAL

CARL HENRY LINDNER

Cincinnati, Ohio *513-579-2115*

SALES: *$3.8 bil.* PROFITS: *$68 mil.*

MARKET VALUE: *$987 mil.*

▶ Born 4/22/19, Dayton, Ohio. Career path–finance/accounting, entrepreneur; tenure–14 years, CEO 14 years. Compensation: 1989 salary & bonus, $400,000; ownership, 14,358,000 indirect shares.[12] ▶ He may be the top banana on paper, but son Keith is really running the show. Has bought back stock, cut costs, used currency hedging to even out commodity food cycles. But operating earnings suffering. Now, must beef up core tropical-fruit business. Trying to heighten recognition with TV ads. Bright spot: new sales to Eastern Europe.

CHIRON

EDWARD E. PENHOET

Emeryville, Calif. *415-655-8730*

SALES: *$35 mil.* LOSS: *$22 mil.*

MARKET VALUE: *$555 mil.*

▶ Born 12/11/40, Oakland, Calif.; AB (biology), Stanford, 1963; PhD (biochemistry), U. of Wash., 1968. Career path–academia, research; tenure–9 years, CEO 9 years. Compensation: 1989 salary & bonus, $235,000; ownership, 160,000 direct, 90,000 indirect shares. ▶ Runs scientists' paradise, with biotech projects from wound healing to AIDS research. Has lucrative R&D and royalty deals with biggies such as Merck, J&J, Ciba-Geigy. For fun, helps teach biochem course at UC-Berkeley. For more fun, works his Monterey vineyard.

CHRIS-CRAFT INDUSTRIES

HERBERT J. SIEGEL

New York, N. Y. *212-421-0200*

SALES: *$267 mil.* PROFITS: *$473 mil.*

MARKET VALUE: *$706 mil.*

▶ Born 5/7/28, Philadelphia, Pa.; BA (journalism), Lehigh, 1950. Career path–entrepreneur; tenure–30 years, CEO 30 years. Compensation: 1989 salary & bonus, $13,687,000; ownership, 2,000 direct, 1,000 indirect shares. ▶ Ex-talent agent notorious for running feud with Warner's Steve Ross now settled $1.7 billion cash-out from the Time Warner merger. Company rily holds his investments, mostly in 62%-owned BHC. One iest media investors around, he's CEO of three companies t. The third, United Television, operates TV stations.

CHRYSLER

LEE A. IACOCCA

Highland Park, Mich. *313-956-5252*

SALES: *$34.9 bil.* PROFITS: *$315 mil.*

MARKET VALUE: *$3 bil.*

▶ Born 10/15/24, Allentown, Pa.; BS (ind. eng.), Lehigh, 1945; MSE (mech. eng.), Princeton, 1946. Career path–engineering/technical; tenure–12 years, CEO 11 years. Compensation: 1989 salary & bonus, $1,414,000; ownership, 191,000 shares. ▶ Does his name really stand for I Am Chairman Of Chrysler Corp.–Always? After heir apparent resigned to head UAL buyout group, board asked him to stay beyond 1991. Minivans, Jeeps strong, but aging models hurt–as do price competition, flat market. European tie-in may be in works.

THE CORPORATE ELITE

CHUBB

DEAN RAYMOND O'HARE

Warren, N. J. *201-580-2000*

SALES: *$4.1 bil.* PROFITS: *$421 mil.*

MARKET VALUE: *$3.6 bil.*

▶ Born 6/21/42, Jersey City, N. J.; BS, NYU, 1963; MBA, Pace, 1968. Career path–finance/accounting; tenure–27 years, CEO 2 years. Compensation: 1989 salary & bonus, $1,025,000[1]; ownership, 22,000 shares. ▶ Helped push big insurer into profitable specialty coverage–race horses, museums, corporate directors–while dodging low-ball auto lines. And urged move into life insurance. Now, this natty dresser's still diversifying–this time with real estate development, despite current slump. Even core property-casualty holding its own.

CHURCH & DWIGHT

DWIGHT C. MINTON

Princeton, N. J. *609-683-5900*

SALES: *$388 mil.* PROFITS: *$9 mil.*

MARKET VALUE: *$380 mil.*

▶ Born 12/17/34, North Hills, N. Y.; BA (history), Yale, 1959; MBA, Stanford, 1961. Career path–mkting., finance; tenure–29 years, CEO 22 years. Compensation: 1989 salary & bonus, $619,000; ownership, 251,000 direct, 116,000 indirect shares. ▶ "Green" movement means lots of green for him. Company makes Arm & Hammer natural baking, cleaning, deodorizing products. One odd big seller: digestive aid for cows. Great-great-grandson of founder added execs from J&J, P&G. Fishes, plays tennis, hangs out at Montana ranch.

CIGNA

WILSON H. TAYLOR

Philadelphia, Pa. *215-523-4000*

SALES: *$15.7 bil.* PROFITS: *$458 mil.*

MARKET VALUE: *$3.2 bil.*

▶ Born 11/17/43, Hartford, Conn.; BS, Trinity, 1964. Career path–finance/accounting; tenure–26 years, CEO 2 years. Compensation: 1989 salary & bonus, $1,103,000; ownership, 38,000 shares. ▶ Betting big on managed health care. Paid $777 million for Equicor, bringing him to almost 40 HMOs. Figures buying power will reduce costs. But for now, depressed property-casualty market's clobbering earnings, and Hurricane Hugo, California quake didn't help. So he's consolidating, ditching personal, auto. Rock fan, on board of Philly Orchestra.

CILCORP

ROBERT O. VIETS

Peoria, Ill. *309-672-5271*

SALES: *$459 mil.* PROFITS: *$53 mil.*

MARKET VALUE: *$404 mil.*

▶ Born 12/8/43, Girard, Kan.; BS (econ.), Washburn, 1965; JD, Wash. U. (Mo.) Law, 1969. Career path–finance/accounting; tenure–18 years, CEO 3 years. Compensation: 1989 salary & bonus, $298,000; ownership, 2,000 direct, 2,000 indirect shares. ▶ He knows what "no growth" means. Utility has posted flat sales for past decade. So he's diversifying like mad. Already, 10% of earnings come from investment-management subsidiary. Just sold 80% stake in fledgling long-distance carrier for fat profit. Into asbestos abatement, environmental services.

CINCINNATI BELL

DWIGHT H. HIBBARD

Cincinnati, Ohio *513-397-9900*

SALES: *$900 mil.* PROFITS: *$94 mil.*

MARKET VALUE: *$1.2 bil.*

▶ Born 7/27/23, Hadley, Mass.; BA (physics/math), Amherst, 1947; BSEE, MIT, 1949. Career path–engineering/technical; tenure–26 years, CEO 6 years. Compensation: 1989 salary & bonus, $995,000[1]; ownership, 46,000 direct, 60,000 indirect shares. ▶ Avid fisherman (salmon in Alaska, northern pike in Canada) casting for companies. Committed to doubling revenues by 1994, so he'll spend takeover nest egg of up to $100 million this year. Targets: long-distance resale, telemarketing, software. "These are businesses we know and understand," he says.

CINCINNATI FINANCIAL

JOHN J. SCHIFF

Cincinnati, Ohio *513-870-2000*

SALES: *$974 mil.* PROFITS: *$114 mil.*

MARKET VALUE: *$1.4 bil.*

▶ Born 4/19/16, Cincinnati, Ohio; BS (business, marketing), Ohio State, 1938. Career path–merchandising/marketing, finance/accounting; tenure–40 years, CEO 3 years. Compensation: 1989 salary & bonus, $609,000; ownership, 577,000 direct, 54,000 indirect shares. ▶ Getting more involved with insurance company's affairs. Last year's profits off 11%, mainly from catastrophic loss. Should bounce back, thanks to careful underwriting standards, stable prices in its small markets, close ties with agents–who own 20%. Loves golf, when he can find time.

CINCINNATI GAS & ELECTRIC

JACKSON H. RANDOLPH

Cincinnati, Ohio *513-381-2000*

SALES: *$1.4 bil.* PROFITS: *$240 mil.*

MARKET VALUE: *$1.5 bil.*

▶ Born 11/17/30, Cincinnati, Ohio; BBA (1958), MBA (accounting, 1968), U. of Cincinnati. Career path–finance/accounting; tenure–31 years, CEO 4 years. Compensation: 1989 salary & bonus, $405,000; ownership, 1,000 direct, 9,000 indirect shares.[7] ▶ Head of local Boy Scouts council wants employees to be helpful, friendly, courteous, kind. Hopes instilling service-oriented culture will gain support from customers. They haven't had a rate hike since 1984 but will soon start paying for his share of $3.6 billion plant converting from nuke to coal.

CINCINNATI MILACRON

DANIEL J. MEYER

Cincinnati, Ohio *513-841-8100*

SALES: *$851 mil.* PROFITS: *$18 mil.*

MARKET VALUE: *$387 mil.*

▶ Born 5/31/36, Flint, Mich.; BS (elect. eng.), Purdue, 1958; MBA, Ind., 1963. Career path–finance/accounting; tenure–21 years, CEO 6 months. Compensation: 1989 salary & bonus, $304,000; ownership, 78,000 shares. ▶ Likes to run in the morning–when there's time. First CEO at machinery maker outside founding Geier family. Despite restructuring, hasn't been able to generate good returns since last machinery boom in early '80s. Investing heavily in new products, working on "team" approach. Selling heavy robotics business to Asea Brown Boveri.

CINTAS

RICHARD THIRL FARMER

Cincinnati, Ohio 513-489-4000

SALES: *$244 mil.* PROFITS: *$22 mil.*

MARKET VALUE: *$581 mil.*

▶ Born 11/22/34, Dayton, Ky.; BA (business), Miami U. (Ohio), 1956. Career path–merchandising/marketing; tenure–33 years, CEO 22 years. Compensation: 1989 salary & bonus, $330,000; ownership, 4,425,000 direct, 666,000 indirect shares. ▶ Third-generation CEO outfitting uniform renter, marketer with new plants and equipment. He can afford it: Just logged 21st year of uninterrupted sales, profits gains. Expanding aggressively to meet goal of being in every major metro area. Ex-Marine spends free time hunting and saltwater bonefishing.

CIRCUIT CITY STORES

RICHARD L. SHARP

Richmond, Va. 804-527-4000

SALES: *$2.1 bil.* PROFITS: *$78 mil.*

MARKET VALUE: *$833 mil.*

▶ Born 4/12/47, Washington, D. C.; attended U. of Va., William & Mary. Career path–engineering/technical; tenure–8 years, CEO 4 years. Compensation: 1989 salary & bonus, $782,000; ownership, 455,000 shares. ▶ College dropout taught himself computer programming in the Air Force. Earnings keep climbing, unlike many other electronics retailers. His edge: sophisticated computer systems and a state-of-the-art distribution system to support 145 stores. With growth harder to come by, he's stocking more office products, trying smaller stores.

CIRCUS CIRCUS ENTERPRISES

WILLIAM G. BENNETT

Las Vegas, Nev. 702-734-0410

SALES: *$522 mil.* PROFITS: *$75 mil.*

MARKET VALUE: *$1.4 bil.*

▶ Born 11/16/24, Glendale, Ariz.; attended Phoenix Coll. Career path–mchdsing./mkting., admin./operations; tenure–16 years, CEO 16 years. Compensation: 1989 salary & bonus, $800,000; ownership, 19,584,000 direct, 4,991,000 indirect shares. ▶ Boss of the K mart of casino operations has just opened $290 million Excalibur in Las Vegas, largest hotel ever built (4,032 rooms). Low break-even virtually guarantees profits, but if tourism turns soft, will they pay down nearly $500 million debt? Away from tables, he's into speedboats, model planes.

CISCO SYSTEMS

JOHN P. MORGRIDGE

Menlo Park, Calif. 415-326-1941

SALES: *$28 mil.* PROFITS: *$4 mil.*

MARKET VALUE: *$305 mil.*

▶ Born 7/23/33, Elmhurst, Ill.; BBA, U. of Wis., 1955; MBA, Stanford, 1957. Career path–sales, marketing; tenure–2 years, CEO 2 years. Compensation: 1989 salary & bonus, $160,000[7]; ownership, 621,000 shares.[7] ▶ Don't put his routers on your workbench. They're communications gear that links local PC networks. Market growing 50% annually, products licensed from Stanford where two founders worked. Potential threat: competition from Baby Bells. Veteran computer industry hand adds real-world experience to largely academic environment.

CITICORP

JOHN SHEPARD REED

New York, N. Y. 212-559-1000

SALES: *$38 bil.* PROFITS: *$498 mil.*

MARKET VALUE: *$6.1 bil.*

▶ Born 2/7/39, Chicago, Ill.; BA (Am. lit.), Washington & Jefferson, 1961; BS (ind. mgmt., metallurgy.), MIT, 1961; MS (management), MIT, 1965. Career path–operations; tenure–25 years, CEO 6 years. Compensation: 1989 salary & bonus, $1,484,000; ownership, 481,000 shares. ▶ Candid, sometimes brash banker. No sooner did he turn the corner on Third World debt than he ran afoul of softening commercial real estate. Nonperforming assets climbed, profits fell. By own reckoning, he'll need $1 billion to rebuild capital position. Asset sales are likely.

CITIZENS UTILITIES

LEONARD TOW

Stamford, Conn. 203-329-8800

SALES: *$339 mil.* PROFITS: *$89 mil.*

MARKET VALUE: *$1.2 bil.*

▶ Born 5/30/28, Brooklyn, N. Y.; AB (econ.), Brooklyn, 1950; MA (1952), PhD (1960), Columbia. Career path–mgmt., finance; tenure–1 year, CEO 3 months. Compensation: 1989 salary & bonus, NA[6]; ownership, 965,000 indirect shares.[8] ▶ Shrewd manager's Century Communications cable-TV and cellular company picked up shares of retired longtime boss Richard Rosenthal. He'll run the show at this profitable *sui generis* electric-gas-water-sewer-phone-cellular utility. Analysts speculate that it's the cellular holdings that attracted him.

CITY NATIONAL

BRAM GOLDSMITH

Beverly Hills, Calif. 213-550-5400

SALES: *$476 mil.* PROFITS: *$59 mil.*

MARKET VALUE: *$477 mil.*

▶ Born 2/22/23, Chicago, Ill.; attended U. of Ill. Career path–finance/accounting, real estate; tenure–15 years, CEO 15 years. Compensation: 1989 salary & bonus, $941,000; ownership, 4,709,000 shares.[7] ▶ One-time real estate broker now banker to the stars. Stresses personal service, and in his Rodeo Drive neighborhood folks expect it. Avoided foreign, oil loans; finances movies instead. With son Russell, he also controls Republic Pictures–home of all those John Wayne films. Into Native Americans, too; he keeps their art in his office.

CLAIRE'S STORES

ROWLAND SCHAEFER

Miami, Fla. 305-558-2577

SALES: *$190 mil.* PROFITS: *$19 mil.*

MARKET VALUE: *$337 mil.*

▶ Born 6/18/16, Chicago, Ill. Career path–merchandising/marketing; tenure–29 years, CEO 29 years. Compensation: 1989 salary & bonus, $950,000; ownership, 2,056,000 direct, 1,661,000 indirect shares. ▶ His niche is baubles, bangles, bright shiny beads. Will soon have 1,000 stores–tiny but jam-packed with costume jewelry, each requiring only two employees. Wants outlets in all of nation's 3,000 malls. Analysts leery: They still remember his 1985 inventory-control fiasco. Retire? He isn't ready. But takes time for fishing on 60-foot yacht.

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THE CORPORATE ELITE

CLARK EQUIPMENT

LEO JOSEPH MCKERNAN

South Bend, Ind. *219-239-0100*

SALES: *$1.4 bil.* PROFITS: *$65 mil.*

MARKET VALUE: *$480 mil.*

▶ Born 2/17/38, Philadelphia, Pa.; attended Iona, NYU, U. of Bridgeport. Career path–merchandising/marketing, production/manufacturing; tenure–16 years, CEO 4 years. Compensation: 1989 salary & bonus, $1,540,000; ownership, 20,000 direct, 5,000 indirect shares. ▶ Loading up on acquisitions. Recently spent an estimated $100 million for a German axle maker. (He already makes transmissions in Europe.) Earlier, he bought a U. S. company that makes forklifts for narrow-aisle distribution centers. Expect more diversification.

CLEVELAND-CLIFFS

M. THOMAS MOORE

Cleveland, Ohio *216-694-5700*

SALES: *$351 mil.* PROFITS: *$63 mil.*

MARKET VALUE: *$298 mil.*

▶ Born 10/10/34, Brooklyn, N. Y.; BS (business), Ind. U. (Pa.), 1956. Career path–finance/accounting, mgmt.; tenure–24 years, CEO 4 years. Compensation: 1989 salary & bonus, $675,000; ownership, 40,000 shares. ▶ After textbook turnaround, what's next? He wants to grow in iron ore industry–by being "patient, opportunistic, and somewhat creative." He's out to make work life more meaningful. But strike at big Michigan mines will hurt results. Potential plus: Resolution of Wheeling-Pitt bankruptcy may let him collect $100 million claim.

CLOROX

CHARLES R. WEAVER

Oakland, Calif. *415-271-7000*

SALES: *$1.4 bil.* PROFITS: *$146 mil.*

MARKET VALUE: *$2 bil.*

▶ Born 9/16/28, Kingman, Ind.; BS (business admin.), Purdue, 1950. Career path–marketing; tenure–37 years, CEO 5 years. Compensation: 1989 salary & bonus, $807,000; ownership, 79,000 direct, 30,000 indirect shares. ▶ His expansion into detergents costly, with $70 million potential losses this year. Hedged bets with buy of Cyanamid's Pine Sol, Combat lines, but analysts question both. His biggest assets: strong brands. Lots of cash and Henkel–friendly German 28% shareholder. Prowls Bay Area galleries for California art of '30s, '40s.

CMS ENERGY

WILLIAM T. MCCORMICK JR.

Dearborn, Mich. *313-436-9200*

SALES: *$3 bil.* PROFITS: *$331 mil.*

MARKET VALUE: *$2.4 bil.*

▶ Born 9/12/44, Washington, D. C.; BS (eng. physics), Cornell, 1966; PhD (nuclear eng.), MIT, 1969. Career path–govt., energy mgmt.; tenure–5 years, CEO 5 years. Compensation: 1989 salary & bonus, $725,000; ownership, 65,000 shares.[7] ▶ His Michigan utility has finally converted its partially completed nuke plant to natural gas. Now, he wants to apply some of the income stream to nonutility operations–such as energy exploration, waste-to-energy plants. Regulators aren't enthusiastic, which might mean a lengthy wrangle. Active in industry affairs.

CNA FINANCIAL

EDWARD J. NOHA

Chicago, Ill. *312-822-5000*

SALES: *$9.1 bil.* PROFITS: *$614 mil.*

MARKET VALUE: *$4.1 bil.*

▶ Born 8/25/27, New York, N. Y.; BBA, Pace, 1951. Career path–administration; tenure–16 years, CEO 16 years. Compensation: 1989 salary & bonus, $1,488,000; ownership, NA.[7] ▶ Runs this property-casualty insurer (nation's eighth-largest) for 80% owner Loews and New York's Tisch family. Active in industry public-affairs efforts, he's currently fighting possible rate rollbacks especially in health insurance. Fervid partisan no stranger to hyperbole: Compares failure of insurance regulation to failure of communism in Eastern Europe.

COASTAL

JAMES ROBERT PAUL

Houston, Tex. *713-877-1400*

SALES: *$8.3 bil.* PROFITS: *$178 mil.*

MARKET VALUE: *$3.5 bil.*

▶ Born 9/1/34, Wichita, Kan.; BS (business admin.), Wichita State, 1955. Career path–finance/accounting, mgmt. consulting; tenure–18 years, CEO 11 months. Compensation: 1989 salary & bonus, $910,000; ownership, 33,000 direct, 65,000 indirect shares. ▶ Picked by Chairman Oscar Wyatt, who still plays major role at rough-and-tumble energy company. In typical Coastal style, bought Exxon Aruba refinery, is spending $100 million on upgrades to make gasoline for U. S. without added cost of pollution regs. Outdoorsman hunts, skis, plays tennis.

COCA-COLA

ROBERTO C. GOIZUETA

Atlanta, Ga. *404-676-2121*

SALES: *$9 bil.* PROFITS: *$1.2 bil.*

MARKET VALUE: *$28.2 bil.*

▶ Born 11/18/31, Havana, Cuba; BS (chem. eng.), Yale, 1953. Career path–engineering/technical; tenure–36 years, CEO 10 years. Compensation: 1989 salary & bonus, $2,542,000; ownership, 798,000 shares. ▶ New Coke is still a dud, but he hopes test-market move to repackage it as Coke II will help Coke finally woo Pepsi drinkers. But the really big bucks (70% of operating profits) come from overseas where Coke is clearly king. Back home, he's one of Atlanta's staunchest boosters and stalwart guardian of Coke's public image.

COCA-COLA ENTERPRISES

BRIAN G. DYSON

Atlanta, Ga. *404-676-2100*

SALES: *$3.9 bil.* PROFITS: *$72 mil.*

MARKET VALUE: *$1.7 bil.*

▶ Born 9/7/35, Buenos Aires, Argentina; BA (econ.), Facultad de Ciencas Economicas, 1959. Career path–finance/accounting, operations; tenure–4 years, CEO 4 years. Compensation: 1989 salary & bonus, $851,000; ownership, 206,000 direct, 2,000 indirect shares. ▶ Coke's biggest bottler–whose biggest worry is his stock price: below 1986 level when Coke spun off these operations. He's made acquisitions, but profits are hurt by price wars and high ingredient costs. Coke could buy back at bargain price. Enjoys triathlons. Nationally ranked in squash.

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We're counting on Josh to save the environment, design a crash-proof car or simply pilot a spacecraft to Mars.

We're counting on Josh, Tam and Erik to help improve our quality of life. They're counting on the American school system to help them realize their potential.

Unfortunately, too many kids graduate from high school unable to read the newspaper, write a letter or count their change at the store.

America's ability to compete in business, science and technology is at risk. Our future depends upon resourceful, innovative, well-educated people.

The responsibility does not rest solely with the schools. The revitalization of our education system requires a partnership among businesses, community leaders, educators and parents.

What Rockwell is doing.

Years ago, we realized that simply throwing money at the schools wouldn't make them a whole lot better. In the past decade, we have backed up more than $50 million in employee and corporate donations with equipment and the personal involvement of our people.

Today, Rockwell employees are voluntarily participating in more than 200 programs nationwide to inspire students from pre-school through graduate studies to believe in themselves and strive for higher levels of achievement.

We also encourage our own employees to continue to pursue a dedicated program of lifelong learning.

What you can do.

There are hundreds of ways you and your company can encourage American innovation and leadership through quality education. To find out how, simply call 1-800-ROCKWELL for printed information created in cooperation with the National Association of Partners in Education (NAPE). Choose a program in your community that fits your schedule and get involved. The kids are counting on us.

Emphasize Education. It's our future.

Rockwell International

ELECTRONICS AEROSPACE AUTOMOTIVE GRAPHICS

Rockwell is a $12 billion company with more than 100,000 employees worldwide. Our people have a common goal: Understanding our customers and satisfying them with the innovative application of science and technology. We never stop reaching higher.

COLGATE-PALMOLIVE

REUBEN MARK

New York, N. Y. *212-310-2000*

SALES: *$5 bil.* PROFITS: *$280 mil.*

MARKET VALUE: *$4.3 bil.*

▶ Born 1/21/39, Jersey City, N. J.; AB (econ.), Middlebury, 1960; MBA, Harvard, 1963. Career path–marketing; tenure–27 years, CEO 6 years. Compensation: 1989 salary & bonus, $1,407,000; ownership, 75,000 direct, 13,000 indirect shares. ▶ Moving into Eastern Europe. Colgate toothpaste already O. K'd by Russian version of the American Dental Assn., while Palmolive soap, Fab detergent are packaged in English and Cyrillic. Back in the U. S., he's helping inner city kids to an education as a director of the I Have A Dream Foundation.

COLLINS FOODS INTERNATIONAL

RICHARD P. BERMINGHAM

Los Angeles, Calif. *213-827-2300*

SALES: *$559 mil.* PROFITS: *$32 mil.*

MARKET VALUE: *$388 mil.*

▶ Born 4/24/39, Montclair, N. J.; BS (business), U. of Colo., 1962. Career path–finance/accounting; tenure–23 years, CEO 4 years. Compensation: 1989 salary & bonus $430,000; ownership, 205,000 shares. ▶ Say Pepsi, thanks. Gregarious fast-food purveyor of steak and big franchisee of Kentucky Fried Chicken selling out in complex deal to PepsiCo, KFC's parent. When dust settles early next year, Pepsi will run static chicken operation, leaving him with expanding Sizzler Steak division. But can fast-moving executive work in Pepsi's framework?

COLUMBIA GAS SYSTEM

JOHN H. CROOM

Wilmington, Del. *302-429-5000*

SALES: *$3.2 bil.* PROFITS: *$146 mil.*

MARKET VALUE: *$2.2 bil.*

▶ Born 12/12/32, Fayetteville, N. C.; BS (mech. eng.), N. C. State, 1954. Career path–engineering/technical, merchandising/marketing; tenure–36 years, CEO 6 years. Compensation: 1989 salary & bonus, $736,000; ownership, 17,000 direct, 9,000 indirect shares. ▶ Get ready. He says '90s will be "the decade of natural gas." Company serves in mid-Atlantic, has reserves in Gulf of Mexico. Wants to spread assets evenly among production, transmission, distribution. That means more reserves, fewer pipelines. Ham radio operator also plays piano.

COMCAST

BRIAN L. ROBERTS

Philadelphia, Pa. *215-665-1700*

SALES: *$562 mil.* LOSS: *$149 mil.*

MARKET VALUE: *$1.2 bil.*

▶ Born 6/28/59, Philadelphia, Pa.; BS (business, finance), Wharton, 1981. Career path–finance/accounting, operations mgmt.; tenure–14 years, CEO 8 months. Compensation: 1989 salary & bonus, NA[6]; ownership, 18,000 shares. ▶ All-American squash player. Son of founder calls the shots at cable company. Brisk cash flow should let him weather credit crunch, Wall Street's worries about reregulation. Taking a breather from acquisitions, he's busy upgrading systems, adding customers. Also getting lots of growth from cellular phone business.

COMDISCO

KENNETH N. PONTIKES

Rosemont, Ill. *708-698-3000*

SALES: *$1.7 bil.* PROFITS: *$108 mil.*

MARKET VALUE: *$745 mil.*

▶ Born 3/15/40, Chicago, Ill.; BS (econ., marketing), Southern Ill., 1962. Career path–merchandising/marketing; tenure–21 years, CEO 21 years. Compensation: 1989 salary & bonus, $2,711,000; ownership, 6,712,000 direct, 2,147,000 indirect shares. ▶ Arbitrage flyer, earnings surprises have hurt ex-IBM salesman's credibility with investors. Core business–leasing IBM mainframes–under pressure as customers awaited new models. They're signing shorter-term leases, which means lower reported earnings. Marksman enjoys pheasant hunting, skeet shooting.

COMERICA

EUGENE ALBERT MILLER

Detroit, Mich. *313-222-3300*

SALES: *$1.3 bil.* PROFITS: *$78 mil.*

MARKET VALUE: *$627 mil.*

▶ Born 9/21/37, Detroit, Mich.; BBA, Detroit Inst. of Tech., 1964. Career path–finance/accounting; tenure–35 years, CEO 2 years. Compensation: 1989 salary & bonus, $728,000; ownership, 19,000 shares. ▶ Traveler, World War II buff who visited Normandy last year. His bank's on the road, too, expanding operations in California, Florida, Texas. But back home, there's a PR snafu. His threat to move to the suburbs led to a fight with city of Detroit. Now, there's a customer backlash over the favorable real estate deal the city granted him to stay.

COMMERCE BANCSHARES

DAVID W. KEMPER

Kansas City, Mo. *816-234-2000*

SALES: *$568 mil.* PROFITS: *$59 mil.*

MARKET VALUE: *$421 mil.*

▶ Born 11/20/50, Kansas City, Mo.; BA, Harva[illegible]2; MA (Eng. lit.), Oxford, 1974; MBA, Stanford, 1976. Ca[illegible]h–finance/accounting, banking; tenure–12 years, CEO 4 years. [illegible]mpensation: 1989 salary & bonus, $525,000; ownership, 234,00[illegible]irect, 20,000 indirect shares.[7] ▶ A stay-at-home banker, he's con[illegible]t with boosting market share in Missouri. That's now 10% and [illegible]rising. He's plugged in: Dad's chairman, and cousin Crosby [illegible]s a neighboring banking company, United Missouri. After hours, he plays squash, supports the arts.

COMMERCE CLEARING HOUSE

RICHARD THOMAS MERRILL

Riverwoods, Ill. *708-940-4600*

SALES: *$677 mil.* PROFITS: *$34 mil.*

MARKET VALUE: *$827 mil.*

▶ Born 6/26/28, Chicago, Ill.; BA (1950), BJ (1951), U. of Mo. Career path–merchandising/marketing; administration; tenure–37 years, CEO 12 years. Compensation: 1989 salary & bonus, $423,000; ownership, 16,000 shares.[8] ▶ In April, he divided company into three units: legal services, publishing, computer processing. But the latter two operations are performing poorly. Spending on electronic publishing, foreign expansion, computerized tax preparation hasn't paid off. His challenge: Improve results and keep the controlling Thorne family happy.

FOOTNOTES APPEAR ON PAGE 292

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THE CORPORATE ELITE

COMMONWEALTH EDISON

JAMES J. O'CONNOR

Chicago, Ill. *312-294-4321*

SALES: *$5.8 bil.* PROFITS: *$694 mil.*

MARKET VALUE: *$6.5 bil.*

▶ Born 3/15/37, Chicago, Ill.; BS (econ.), Holy Cross, 1958; MBA, Harvard, 1960; JD, Georgetown Law, 1963. Career path–administration; tenure–27 years, CEO 11 years. Compensation: 1989 salary & bonus, $540,000; ownership, 11,000 shares. ▶ Think you've had a rough year? Court struck down approval for rate increase of No. 1 nuke power producer. Worse, utility had to pay $400 million in refunds and reduce rates by $235 million. Earnings plunging. One solution he's proposing: Spin off one or more reactors to create independent wholesaler.

COMMONWEALTH ENERGY SYSTEM

GERALD EDWIN ANDERSON

Cambridge, Mass. *617-225-4000*

SALES: *$806 mil.* PROFITS: *$42 mil.*

MARKET VALUE: *$297 mil.*

▶ Born 4/9/31, Boston, Mass.; BBA (accounting), U. of Minn., 1952. Career path–finance/accounting; tenure–25 years, CEO 15 years. Compensation: 1989 salary & bonus, $279,000; ownership, 5,000 direct, 13,000 indirect shares.[7] ▶ He could use a blast of cold, crisp Canadian air. Utility, which serves southeastern Massachusetts, hurt by mild New England winter, slow economy. But its $250 million investment in Seabrook nuclear plant will start earning return when plant begins operation later this year. His request for $18 million rate hike just approved.

COMMUNICATIONS SATELLITE

IRVING GOLDSTEIN

Washington, D. C. *202-863-6000*

SALES: *$412 mil.* PROFITS: *$62 mil.*

MARKET VALUE: *$544 mil.*

▶ Born 3/27/38, Catskill, N. Y.; BA (pol. sci., intl. rels.), Queens, 1960; JD, NYU Law, 1963. Career path–legal, management; tenure–24 years, CEO 5 years. Compensation: 1989 salary & bonus, $596,000; ownership, 6,000 shares. ▶ Took a new bounce with purchase of 62% of Denver Nuggets basketball team. Move should help with plans to expand pay-per-view TV into sports. Intelsat stake's still top moneymaker. Behind on plans to feed voice and data via satellite to international flights. Wife is Off-Broadway actress, so he weekends in N. Y.

COMMUNITY PSYCHIATRIC CENTERS

JAMES W. CONTE

Laguna Hills, Calif. *714-831-1166*

SALES: *$320 mil.* PROFITS: *$72 mil.*

MARKET VALUE: *$1.2 bil.*

▶ Born 3/21/28, Des Plaines, Ill.; BS, Roosevelt, 1949; MHS, Northwestern, 1957. Career path–health care; tenure–22 years, CEO 13 years. Compensation: 1989 salary & bonus, $1,025,000; ownership, 620,000 shares. ▶ Spinning off dialysis division, home-care units to concentrate on more successful psychiatric hospitals. But pressured by insurers who want to cut health care costs. Self-proclaimed workaholic, he vows he'll retire within five years to "literally smell the roses." Animal-lover, too, he has a boxer now–may someday become a breeder.

COMPAQ COMPUTER

JOSEPH R. CANION

Houston, Tex. *713-370-0670*

SALES: *$2.9 bil.* PROFITS: *$333 mil.*

MARKET VALUE: *$4 bil.*

▶ BORN 1/19/45, HOUSTON, TEX.; BS (1966), MSEE (1968), U. OF HOUSTON. CAREER PATH—ENGINEERING/TECHNICAL; TENURE—9 YEARS, CEO 9 YEARS. COMPENSATION: 1989 SALARY & BONUS, $2,115,000; OWNERSHIP, 232,000 SHARES. ▶ SPENDING MORE TIME OUTSIDE THE OFFICE, FLYING HIS PLANE AND TRAVELING, WHILE PUSHING MORE AUTHORITY DOWN TO OTHERS. RACING TO OFFSET SLOWER GROWTH AND STIFFER COMPETITION AT HOME FROM LOWER-PRICED CLONE MACHINES BY COURTING COMPUTER MARKETS AROUND THE GLOBE, ESPECIALLY IN WESTERN EUROPE, THE RED HOT MARKET THAT CARRIED THE WATER FOR HIM IN THE SECOND QUARTER. ALSO INTRODUCED A DIZZYING ARRAY OF NEW MACHINES, INCLUDING A POPULAR NEW LAPTOP, A NEW HIGH-END MACHINE, AND COMPANY'S FIRST VENTURE INTO MINICOMPUTER GEAR. ALL THAT PLUS A MASSIVE EFFORT TO BRING RETAILERS UP TO SPEED.

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THE CORPORATE ELITE

COMPUTER ASSOC. INTERNATIONAL

CHARLES B. WANG

Garden City, N. Y. *516-227-3300*

SALES: *$1.3 bil.* PROFITS: *$158 mil.*

MARKET VALUE: *$1.4 bil.*

▶ Born 8/19/44, Shanghai, China; BS (mathematics), Queens, 1967. Career path–engineering/technical, sales; tenure–14 years, CEO 14 years. Compensation: 1989 salary & bonus, $1,957,000; ownership, 15,705,000 shares. ▶ Via acquisitions, he's built nation's largest software-only company. But with acquisition spree slowing, revenue growth is down to single digits. Now, he must get hundreds of incompatible products working together. Facing tough competition from IBM in mainframe data bases. Off hours, he grows orchids, plays racquetball.

COMPUTER SCIENCES

WILLIAM RAY HOOVER

El Segundo, Calif. *213-615-0311*

SALES: *$1.50 bil.* PROFITS: *$66 mil.*

MARKET VALUE: *$623 mil.*

▶ Born 1/2/30, Bingham, Utah; BS (1953), MS (math., 1954), U. of Utah. Career path–engineering/technical; tenure–27 years, CEO 18 years. Compensation: 1989 salary & bonus, $760,000; ownership, 139,000 direct, 9,000 indirect shares. ▶ Computer, communications contractor wants less business with Uncle Sam, more with private sector. Split is now 65/35; he aims for 50/50. Restructuring: Sold Infonet, doing more consulting to compete with EDS, Arthur D. Little. Computer jock, he once headed DP operations at Jet Propulsion Lab.

CONAGRA

CHARLES M. HARPER

Omaha, Neb. *402-978-4000*

SALES: *$15.5 bil.* PROFITS: *$232 mil.*

MARKET VALUE: *$4.1 bil.*

▶ Born 9/26/27, Lansing, Mich.; BS (mech. eng.), Purdue, 1949; MBA, U. of Chicago, 1950. Career path–food ind. mgmt.; tenure–16 years, CEO 15 years. Compensation: 1989 salary & bonus, $1,620,000; ownership, 1,419,000 direct, 56,000 indirect shares. ▶ "Mike" stepped into the spotlight with deal to buy what's left of Beatrice. That moves company beyond commodities and frozen-foods business into "dry" groceries. Heart attack several years back inspired popular Healthy Choice line. Just opened $30 million lab to come up with new winners.

CONNER PERIPHERALS

FINIS F. CONNER

San Jose, Calif. *408-433-3340*

SALES: *$705 mil.* PROFITS: *$41 mil.*

MARKET VALUE: *$863 mil.*

▶ Born 7/28/43, Gadsden, Ala.; BS (ind. man.), San Jose State, 1969. Career path–merchandising/mktg.; tenure–5 years, CEO 5 years. Compensation: 1989 salary & bonus, $704,000; ownership, 2,300,000 shares. ▶ Flamboyant supersalesman keeps his PC disk drives small and fast–but it's harder to keep production costs down. He subcontracts for parts, has plants in Scotland, Singapore, now a new one in Malaysia. A man who leaves details to others, he relishes the good life. Owns several homes, commutes by plane, spends weekends at Lake Tahoe.

CONRAIL

JAMES A. HAGEN

Philadelphia, Pa. *215-977-4000*

SALES: *$3.4 bil.* PROFITS: *$148 mil.*

MARKET VALUE: *$1.7 bil.*

▶ Born 3/27/32, Forest City, Iowa; BA (econ.), St. Ambrose, 1956; MA (business), Iowa State, 1958. Career path–merchandising/marketing; tenure–13 years, CEO 1 year. Compensation: 1989 salary & bonus, $305,000; ownership, 1,000 shares.[7] ▶ Outdoorsman keeps in shape cycling up to 40 miles a week. Uphill grind at debt-heavy railroad company. High-margin shipments of such goods as cars are off. And gains in lower-margin shipments such as coal don't pick up slack. Upped dividend; buying back stock to cut shares outstanding 40%.

CONSOLIDATED EDISON CO. OF N. Y.

EUGENE R. MCGRATH

New York, N. Y. *212-460-4600*

SALES: *$5.6 bil.* PROFITS: *$606 mil.*

MARKET VALUE: *$5 bil.*

▶ Born 2/4/42, Yonkers, N. Y.; BSME (mech. eng.), Manhattan, 1963; MBA, Iona, 1980. Career path–engineering/technical; tenure–27 years, CEO 1 month. Compensation: 1989 salary & bonus, $441,000; ownership, 4,000 shares. ▶ Big-Apple utility, headed by this ex-engineer, hasn't had a rate increase since 1983, isn't expected to get one for two more years. What should he do? In the past, growth in suburban area helped keep revenues growing. But not now. Supply situation is also tight, so he'd like to buy electricity from independent producers.

CONSOLIDATED FREIGHTWAYS

RAYMOND F. O'BRIEN

Menlo Park, Calif. *415-326-1700*

SALES: *$3.8 bil.* PROFITS: *$9 mil.*

MARKET VALUE: *$420 mil.*

▶ Born 5/31/22, Atchison, Kan.; BS (business admin.), U. of Mo., 1948. Career path–finance/accounting; tenure–32 years, CEO 3 months. Compensation: 1989 salary & bonus, NA[6]; ownership, 39,000 shares. ▶ Retired in 1988, and now he's back in the driver's seat at this trucker after dramatic ouster of his successor, Lary Scott. Scott's ill-starred buy of Emery Air Freight has cost $200 million in losses so far. Returning CEO faces real fight to right struggling Emery, but he's recruited a new operating chief, Art Bass, to give him a hand.

CONSOLIDATED NATURAL GAS

GEORGE A. DAVIDSON JR.

Pittsburgh, Pa. *412-227-1000*

SALES: *$2.8 bil.* PROFITS: *$182 mil.*

MARKET VALUE: *$3.9 bil.*

▶ Born 7/28/38, Pittsburgh, Pa.; BS (petro. eng.), U. of Pittsburgh, 1960. Career path–administration, operations; tenure–24 years, CEO 3 years. Compensation: 1989 salary & bonus, $520,000; ownership, 19,000 shares. ▶ Warm weather has done nice things for his garden but little for utility's earnings. But Mideast confrontation may be boon to natural gas. Looking to cut costs companywide–but not capital spending. Latest plan is up 30%, to $2.5 billion. More than a third will be used to expand transmission system. His style: methodical, consensus-building.

THE CORPORATE ELITE

CONSOLIDATED PAPERS

GEORGE W. MEAD

Wisconsin Rapids, Wis. *715-422-3111*

SALES: *$953 mil.* PROFITS: *$168 mil.*

MARKET VALUE: *$1.5 bil.*

▶ Born 10/11/27, Milwaukee, Wis.; BS (chem.), Yale, 1950; MS (chem. eng.), Inst. of Paper Chem., 1952. Career path–eng./tech., prod./mfg.; tenure–38 years, CEO 24 years. Compensation: 1989 salary & bonus, $415,000; ownership, 55,000 direct, 16,990,000 indirect shares.[7] ▶ Profits in the shredder. Industry hurting as pulp capacity comes on line when demand is weak. In relatively stronger market for coated papers, but problems there, too. But he hasn't stopped capital spending. Grandson of first general manager. Avid downhill skier.

CONTEL

DONALD W. WEBER

Atlanta, Ga. *404-391-8000*

SALES: *$3.1 bil.* PROFITS: *$277 mil.*

MARKET VALUE: *$4.8 bil.*

▶ Born 10/4/36, Turtle Creek, Pa.; BS (business admin.), Duquesne, 1961. Career path–finance/accounting; tenure–26 years, CEO 3 years. Compensation: 1989 salary & bonus, $780,000; ownership, 58,000 shares. ▶ It's kind of moot, since crusty Chairman Charles Wohlstetter has struck a deal to merge phone and cellular company into larger rival GTE at year's end. New bosses have offered him two senior positions at GTE. But he may decide to retire and walk away, pulling cord on golden parachute guaranteeing him three times highest yearly earnings.

CONTEL CELLULAR

PAUL G. KOZLOWSKI

Atlanta, Ga. *404-804-3400*

SALES: *$66 mil.* PROFITS: *$3 mil.*

MARKET VALUE: *$1.3 bil.*

▶ Born 5/27/38, Stolptce, Poland; BS (eng.), General Motors Inst., 1962. Career path–engineering/technical, mgmt.; tenure–10 years, CEO 6 years. Compensation: 1989 salary & bonus, $211,000; ownership, 26,000 shares. ▶ He got his job by persuading parent Contel to enter the fast growing cellular business. Now that parent's selling out to GTE, he's moving up. He already has been picked to head the much larger combined cellular operations. Remaining question: Will GTE buy back shares of 10% of Contel Cellular sold to the public?

CONTINENTAL BANK

THOMAS C. THEOBALD

Chicago, Ill. *312-828-2345*

SALES: *$3.2 bil.* PROFITS: *$286 mil.*

MARKET VALUE: *$540 mil.*

▶ Born 5/5/37, Cincinnati, Ohio; AB (econ.), Holy Cross, 1958; MBA (finance), Harvard, 1960. Career path–finance/accounting; tenure–3 years, CEO 3 years. Compensation: 1989 salary & bonus, $1,150,000; ownership, 25,000 shares. ▶ Left Citicorp to head this bailed-out giant. Still lots to do. Recently eliminated 900 jobs, shut forex trading desks in London and Tokyo. Still for sale: First Options securities unit. Aiming for niche with middle-market customers, but there's competition. FDIC still owns 26% stake, which it wants to sell. He may make a bid.

CONTINENTAL CORP.

JOHN P. MASCOTTE

New York, N. Y. *212-440-3000*

SALES: *$6.1 bil.* PROFITS: *$153 mil.*

MARKET VALUE: *$1.3 bil.*

▶ Born 5/19/39, Fort Wayne, Ind.; BS (accounting, philosophy), St. Joseph's, 1961; LLB, U. of Va. Law, 1964. Career path–insurance; tenure–10 years, CEO 8 years. Compensation: 1989 salary & bonus, $844,000; ownership, 15,000 direct, 2,000 indirect shares. ▶ Wall Street impatient. Dynamic boss with life insurance background hasn't done much with this property-casualty giant. Terrible business written in the '80s coming back to haunt him in the form of big claims. Earnings down. Now looking for specialty areas, like medical malpractice.

CONTROL DATA

LAWRENCE PERLMAN

Minneapolis, Minn. *612-853-8100*

SALES: *$2.9 bil.* LOSS: *$680 mil.*

MARKET VALUE: *$606 mil.*

▶ Born 4/8/38, St. Paul, Minn.; BA (liberal arts), Carleton, 1960; JD, Harvard Law, 1963. Career path–legal; tenure–10 years, CEO 9 months. Compensation: 1989 salary & bonus, $658,000; ownership, 98,000 shares. ▶ Popular, up-front manager in company known for intrigue. Much downsizing, but still in eight diverse businesses–including mainframes, Arbitron ratings, payroll processing. Lacks clear strategy. Took over amid controversy over predecessor Bob Price's $13 million severance. Exotic travel: Fishing in Mongolia, helicopter skiing in Arctic.

CONVEX COMPUTER

ROBERT J. PALUCK

Richardson, Tex. *214-497-4000*

SALES: *$159 mil.* PROFITS: *$11 mil.*

MARKET VALUE: *$312 mil.*

▶ Born 12/23/47, Chicago, Ill.; BS (elect.) U. of Ill., 1969; MBA, SMU, 1980. Career path–engineering/technical; tenure–8 years, CEO 8 years. Compensation: 1989 salary & bonus, $250,000; ownership, 603,000 shares. ▶ Makes low-en supercomputers for corporate customers. Debuting new gallium arsenide model with more power, using less electricity. No nerd: Parks stuffed gorilla in managers' offices when they mess up. Ends week with beer bust, quarter with pig roast. Imports sand to company parking lot for summer beach blasts.

COOPER INDUSTRIES

ROBERT CIZIK

Houston, Tex. *713-739-5400*

SALES: *$5.1 bil.* PROFITS: *$268 mil.*

MARKET VALUE: *$4.1 bil.*

▶ Born 4/4/31, Scranton, Pa.; BS (accounting), U. of Conn., 1953; MBA, Harvard, 1958. Career path–strategic planning; tenure–29 years, CEO 15 years. Compensation: 1989 salary & bonus, $1,256,000; ownership, 237,000 shares. ▶ Hungry acquirer's taking time to digest last year's meals. Consolidating, restructuring Champion Spark Plug and folding Cameron Iron Works into an existing unit. Aims to get debt below 40% of capital by yearend. Strong demand for oil and gas equipment gave him big boost last year, and Cameron should help here.

COOPER TIRE & RUBBER

IVAN WILLIAM GORR

Findlay, Ohio 419-423-1321

SALES: *$867 mil.* PROFITS: *$58 mil.*

MARKET VALUE: *$603 mil.*

▶ Born 10/15/29, Toledo, Ohio; BBA, U. of Toledo, 1951. Career path–finance/accounting; tenure–18 years, CEO 11 months. Compensation: 1989 salary & bonus, $583,000; ownership, 263,000 direct, 14,000 indirect shares. ▶ Bigger rivals keep hitting potholes, but he's rolling along. Finds magic in selling tires to independent dealers, not carmakers. Split stock in August, boosted dividend for 11th straight year. Reopening Georgia Firestone plant with a $100 million investment to start off. Slow-talking delegator came to company from its accounting firm.

COORS (ADOLPH)

WILLIAM K. COORS

Golden, Colo. 303-279-6565

SALES: *$1.8 bil.* PROFITS: *$13 mil.*

MARKET VALUE: *$914 mil.*

▶ Born 8/11/16, Denver, Colo.; BS (1938), MS (chem. eng., 1939), Princeton. Career path–engineering/technical; tenure–51 years, CEO 20 years. Compensation: 1989 salary & bonus, $345,000; ownership, 18,517,000 indirect shares.[8] ▶ While most of deal for Stroh Brewing fell through, he did get its Memphis brewery, easing tight packaging capacity. Low-priced Keystone brand is success. Must build market share to stay in the fight against giants Miller and Anheuser-Busch. Meanwhile, family split raises questions about succession.

CORESTATES FINANCIAL

TERRENCE A. LARSEN

Philadelphia, Pa. 215-973-3100

SALES: *$1.9 bil.* PROFITS: *$199 mil.*

MARKET VALUE: *$1.8 bil.*

▶ Born 9/12/46, Chicago, Ill.; BA (econ.), U. of Dallas, 1968; PhD (econ.), Tex. A&M, 1971. Career path–finance/accounting; tenure–13 years, CEO 3 years. Compensation: 1989 salary & bonus, $852,000; ownership, 19,000 shares. ▶ He's ahead of schedule absorbing 1990 acquisition of First Pennsylvania bank, which strengthened core retail, midmarket corporate lines. Charged off $261 million of First's Third World debt. Unlike many, had solid year, with 16.8% ROE. Working to expand big ATM network, now into New England, and credit cards.

CORNING

JAMES R. HOUGHTON

Corning, N. Y. 607-974-9000

SALES: *$2.4 bil.* PROFITS: *$259 mil.*

MARKET VALUE: *$3.7 bil.*

▶ Born 4/6/36, Corning, N. Y.; AB (1958), MBA (1962), Harvard. Career path–general mgmt.; tenure–28 years, CEO 7 years. Compensation: 1989 salary & bonus, $925,000; ownership, 160,000 direct, 2,999,000 indirect shares. ▶ Scion of family firm obsessed with quality, preaches it at company functions. Revenues rising fast, and company is in some growing businesses. Still shuffling complex mix of technology companies, including partnerships, joint ventures. Question: Will demand explode for optical fiber, where he has invested millions?

COSTCO WHOLESALE

JAMES SINEGAL

Kirkland, Wash. 206-828-8100

SALES: *$3 bil.* PROFITS: *$27 mil.*

MARKET VALUE: *$1.2 bil.*

▶ Born 1/1/36, Pittsburgh, Pa.; attended San Diego State. Career path–merchandising/marketing; tenure–8 years, CEO 2 years. Compensation: 1989 salary & bonus, $336,000; ownership, 1,061,000 shares. ▶ Runs more than 60 members-only discount stores modeled after Price Club, where he previously worked. Fast-growing chain is in western U. S., Canada, Florida. Now entering Northeast but analysts question that move. He'll act quickly if it fails: Just closed four weak Florida outlets, exited Midwest in 1988. Laid-back but aggressive.

CPC INTERNATIONAL

CHARLES R. SHOEMATE

Englewood Cliffs, N. J. 201-894-4000

SALES: *$5.1 bil.* PROFITS: *$328 mil.*

MARKET VALUE: *$5.7 bil.*

▶ Born 12/10/39, LaHarpe, Ill.; BS (physics, math), Western Ill., 1962; MBA (marketing, finance), U. of Chicago, 1973. Career path–mktg./finance, mfg./admin.; tenure–28 years, CEO 2 months. Compensation: 1989 salary & bonus, $470,000; ownership, 7,000 shares. ▶ Lifer worked his up to president, succeeded late James Eiszner as boss. Promises no surprises since company's shift into high-margin food brands from commodity corn products hiked ROE to 27%. Once-stodgy processor's now nimble worldwide marketer. He skis with sons.

CPI

ALYN V. ESSMAN

St. Louis, Mo. 314-231-1575

SALES: *$351 mil.* PROFITS: *$31 mil.*

MARKET VALUE: *$419 mil.*

▶ Born 5/3/32, St. Louis, Mo.; BSBA, Wash. U. (Mo.), 1953. Career path–finance/accounting; tenure–34 years, CEO 17 years. Compensation: 1989 salary & bonus, $768,000; ownership, 272,000 direct, 40,000 indirect shares. ▶ Say "cheese," and he'll smile. Operates 940 portrait studios in Sears stores. After cold winter slowed photo sittings, sales and earnings up smartly with big pre-Easter promotion. Building one-hour photo-finishing chain–now 299 labs, and he'll open 25 or so this year. Newest push is CopyMat photocopying/electronic publishing shops.

CRACKER BARREL OLD COUNTRY STORE

DAN EVINS

Lebanon, Tenn. 615-444-5533

SALES: *$170 mil.* PROFITS: *$11 mil.*

MARKET VALUE: *$316 mil.*

▶ Born 10/11/35, Smithville, Tenn.; attended George Washington. Career path–entrepreneur; tenure–21 years, CEO 21 years. Compensation: 1989 salary & bonus, $408,000; ownership, 394,000 direct, 26,000 indirect shares. ▶ Delegator is pushing forward with expansion plans at roadside restaurant chain. Opened 15 within last year, bringing total to 88. Plans call for 18 this year. Operation thrives on full service, could be trouble as market heads more toward self-service. Loves water activities, particularly boating. Owns a boat in Florida.

FOOTNOTES APPEAR ON PAGE 292

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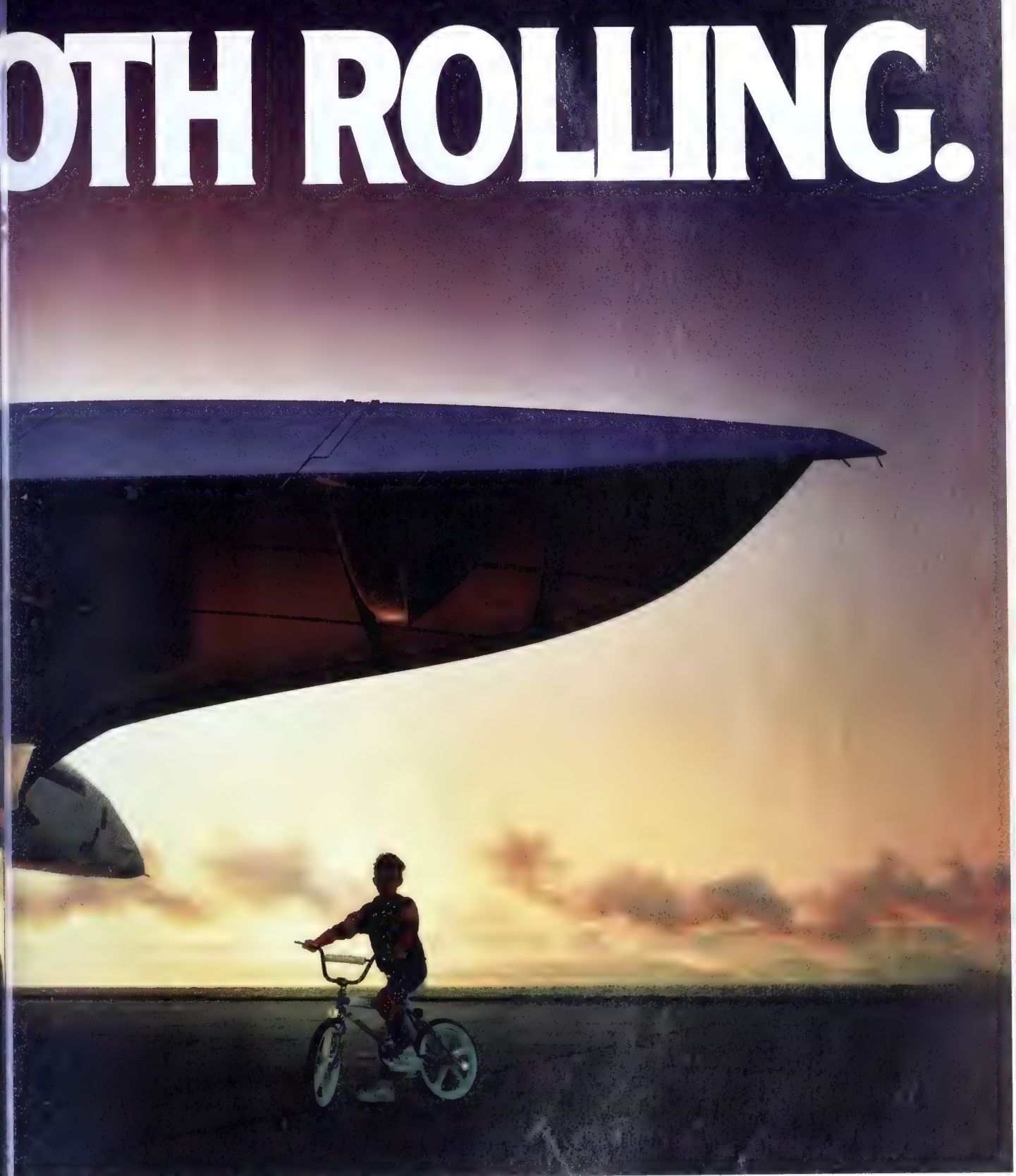

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CRANE

ROBERT SHELDON EVANS

New York, N. Y. 212-415-7300

SALES: *$1.5 bil.* PROFITS: *$56 mil.*

MARKET VALUE: *$676 mil.*

▶ Born 3/20/44, Pittsburgh, Pa.; BA (history), U. of Pa., 1966; MBA (finance), Columbia, 1968. Career path–finance/accounting; tenure–16 years, CEO 7 years. Compensation: 1989 salary & bonus, $1,043,000; ownership, 904,000 direct, 3,000 indirect shares. ▶ Took top job after dad's LBO bid fizzled. Moved out of cement, steel and expanded noncyclical niches. His niftiest: antiskid controls for aircraft brakes. He's world's biggest vendor, sole supplier to Boeing. Athletic: tennis, sailing, skiing. Ran New York City marathon until injuries sidelined him.

CRAWFORD

FORREST LEE MINIX

Atlanta, Ga. 404-256-0830

SALES: *$374 mil.* PROFITS: *$28 mil.*

MARKET VALUE: *$496 mil.*

▶ Born 11/6/27, Milan, Ga.; BS (chemistry), U. of Ga., 1949. Career path–operations, mgmt.; tenure–41 years, CEO 3 years. Compensation: 1989 salary & bonus, $556,000; ownership, 52,000 shares. ▶ Consummate strategist and marketer, believes in participative management. Continues fast expansion at claims-adjusting firm. Other services include risk management, health care management, risk control. Revenue up 27% last year. Trying to decide whether to "buy or build" overseas. Enjoys golf, gardening, vacationing in the Florida Keys.

CRAY RESEARCH

JOHN A. ROLLWAGEN

Eagan, Minn. 612-452-6650

SALES: *$785 mil.* PROFITS: *$89 mil.*

MARKET VALUE: *$954 mil.*

▶ Born 11/20/40, Minneapolis, Minn.; BS (elect. eng.), MIT, 1962; MBA, Harvard, 1964. Career path–marketing; tenure–15 years, CEO 10 years. Compensation: 1989 salary & bonus, $420,000; ownership, 35,000 direct, 2,000 indirect shares. ▶ Art-lover boss recently took his first full week away from job in 15 years. Revenues flat, and heated competition makes him uneasy. Earnings got a boost when founder Seymour Cray left, taking expensive Cray 3 project. Goal: Bring network supercomputer power to desk of every scientist, engineer.

CRESTAR FINANCIAL

RICHARD GRANVILLE TILGHMAN

Richmond, Va. 804-782-5000

SALES: *$1.2 bil.* PROFITS: *$104 mil.*

MARKET VALUE: *$502 mil.*

▶ Born 9/18/40, Norfolk, Va.; BA (foreign affairs), U. of Va., 1963. Career path–finance/accounting; tenure–24 years, CEO 5 years. Compensation: 1989 salary & bonus, $608,000; ownership, 40,000 shares. ▶ Hard-driver turned bank into retail and commercial giant. Now, he's got the same woes as others in the mid-Atlantic corridor: a soft local economy and mounting loan losses on commercial real estate. Nonperforming assets rose over $100 million last year. In his scant spare time these days, he sails, plays tennis, supports local theater group.

CRI LIQUIDATING REIT

WILLIAM BARNET DOCKSER

Rockville, Md. 301-468-9200

SALES: *$41 mil.* PROFITS: *$33 mil.*

MARKET VALUE: *$365 mil.*

▶ Born 3/3/37, Cambridge, Mass.; BA, Harvard, 1959; LLB, Yale Law, 1962. Career path–legal; tenure–11 months, CEO 11 months. Compensation: 1989 salary & bonus, none[2]; ownership, none.[8] ▶ Once a tough prosecutor in Massachusetts, he now heads this REIT–two-thirds of which is owned by sister fund Criimi Mae. Assets mostly government-insured mortgages on multifamily housing units acquired through the merger of three CRI mortgage funds. REIT pledged to liquidate by 1997, so his job is selling property, preservation of capital.

CROMPTON & KNOWLES

VINCENT A. CALARCO

Stamford, Conn. 203-353-5400

SALES: *$356 mil.* PROFITS: *$25 mil.*

MARKET VALUE: *$480 mil.*

▶ Born 5/29/42, New York, N. Y.; BS (chem. eng.), Polytechnic U., 1963; MBA, Harvard, 1970. Career path–marketing; tenure–5 years, CEO 5 years. Compensation: 1989 salary & bonus, $700,000; ownership, 138,000 direct, 50,000 indirect shares. ▶ Ex-Uniroyalist turned old-line dyemaker into top specialty-chemicals outfit. Customers in 50 countries include food, drug manufacturers, plus traditional fabric, carpet mills. Recent acquisition means flavorings now comprise 30% of sales. Works long hours; unwinds on ski slopes, at sons' sporting events.

CROSS (A. T.)

BRADFORD R. BOSS

Lincoln, R. I. 401-333-1200

SALES: *$247 mil.* PROFITS: *$36 mil.*

MARKET VALUE: *$426 mil.*

▶ Born 3/13/33, Providence, R. I.; BS, U. of R. I., 1955. Career path–merchandising/marketing; tenure–32 years, CEO 11 years. Compensation: 1989 salary & bonus, $339,000; ownership, 236,000 direct, 1,597,000 indirect shares. ▶ Open-minded executive regularly gives production workers decision-making powers. Pen maker's profits flat despite foreign gains. Manetti Farrow leather-goods unit, bought three years ago, isn't helping: Many customers have financial problems; sales are down. Likes golf, squash, platform tennis, sailing.

CROWN CORK & SEAL

WILLIAM JOSEPH AVERY

Philadelphia, Pa. 215-698-5100

SALES: *$1.9 bil.* PROFITS: *$94 mil.*

MARKET VALUE: *$1.7 bil.*

▶ Born 6/20/40, Chicago, Ill.; attended U. of Chicago. Career path–merchandising/marketing, production/manufacturing; tenure–31 years, CEO 1 year. Compensation: 1989 salary & bonus, $352,000; ownership, 63,000 shares. ▶ No sophomore jinx here; snapped up Continental Can Canada in late 1989 and Continental U. S. beverage, food units this year. Result: Sales could double, to nearly $4 billion, by 1991. Canadian purchase and lower aluminum prices already bolstering 1990 earnings. Away from the office, he enjoys boating and fishing.

FOOTNOTES APPEAR ON PAGE 292

THE CORPORATE ELITE

CSX

JOHN W. SNOW

Richmond, Va. *804-782-1400*

SALES: *$7.7 bil.* PROFITS: *$427 mil.*

MARKET VALUE: *$2.9 bil.*

▶ Born 4/2/39, Toledo, Ohio; BA, Kenyon, 1962; PhD (econ.), U. of Va., 1965; LLB, George Washington Law, 1967. Career path–legal; tenure–13 years, CEO 1 year. Compensation: 1989 salary & bonus, $889,000; ownership, 33,000 direct, 2,000 indirect shares. ▶ Onetime head of National Highway Traffic Safety Admin. Has finished transforming conglomerate into transportation-only company. One big disappointment: Failed to buy RF&P Corp., a road with good real estate near Washington. Enjoys golf, jogging, fishing when not working on the railroad.

CUC INTERNATIONAL

WALTER A. FORBES

Stamford, Conn. *203-324-9261*

SALES: *$365 mil.* PROFITS: *$8 mil.*

MARKET VALUE: *$390 mil.*

▶ Born 11/13/42, Rockford, Ill.; BS (1961), MSJ (journalism, 1965), Northwestern; MBA, Harvard, 1968. Career path–merchandising/marketing, investor; tenure–14 years, CEO 14 years. Compensation: 1989 salary & bonus, $793,000; ownership, 388,000 direct, 3,000 indirect shares. ▶ Direct-marketing superstar launched small shop-by-phone discounter that now serves 14 million members. Offers 250,000 products and services, including travel, home repair. Spartan at bare-walled offices but not at home. World-class collector of ceramics, realist art.

CUMMINS ENGINE

HENRY BREWER SCHACHT

Columbus, Ind. *812-377-5000*

SALES: *$3.5 bil.* LOSS: *$6 mil.*

MARKET VALUE: *$394 mil.*

▶ Born 10/16/34, Erie, Pa.; BS (ind. admin.), Yale, 1956; MBA, Harvard, 1962. Career path–finance/accounting; tenure–26 years, CEO 17 years. Compensation: 1989 salary & bonus, $528,000; ownership, 7,000 shares. ▶ After a two-year search, he finally sold a 25% stake to three outsiders: Kubota, Ford, Tenneco. The trio (especially Ford) will bring new diesel-engine customers as well as fresh capital. But there's a risk that they won't be as patient as the controlling Miller family. Delights in his four kids; dabbles at tennis.

CYPRESS SEMICONDUCTOR

T. J. RODGERS

San Jose, Calif. *408-943-2600*

SALES: *$199 mil.* PROFITS: *$31 mil.*

MARKET VALUE: *$381 mil.*

▶ Born 3/15/48, Oshkosh, Wis.; AB (physics, chem.), Dartmouth, 1970; MS (1973), PhD (elect. eng., 1975), Stanford. Career path–engineering/technical, administration; tenure–8 years, CEO 8 years. Compensation: 1989 salary & bonus, $217,000; ownership, 516,000 shares. ▶ Star performer in high-end chips, many designed by others. Licensed nine chips from Soviet academics. Funds startups to keep his top people. Movie buff, pizza chef. Thinks chip executives should stop whining and become better manufacturers, like the Japanese. And like him.

CYPRUS MINERALS

KENNETH J. BARR

Englewood, Colo. *303-643-5000*

SALES: *$1.8 bil.* PROFITS: *$250 mil.*

MARKET VALUE: *$839 mil.*

▶ Born 8/25/26, Birmingham, Ala.; BS (chem. eng.), Auburn, 1947. Career path–engineering/technical, production/manufacturing; tenure–43 years, CEO 6 years. Compensation: 1989 salary & bonus, $734,000; ownership, 45,000 direct, 16,000 indirect shares. ▶ Mining profits were way up last year at former money-loser spun off by Amoco, though write-down of a coal property will hurt. He's spent $1 billion-plus to expand in everything from coal to zinc. But it's getting harder and harder to find good U. S. properties to buy.

DANA

SOUTHWOOD J. MORCOTT

Toledo, Ohio *419-535-4500*

SALES: *$5.2 bil.* PROFITS: *$132 mil.*

MARKET VALUE: *$1.2 bil.*

▶ Born 4/12/38, Covington, Ga.; AB, Davidson, 1960; MBA, U. of Mich., 1964. Career path–merchandising/marketing, prod./mfg.; tenure–27 years, CEO 1 year. Compensation: 1989 salary & bonus, $561,000; ownership, 35,000 shares. ▶ Like predecessors at auto and truck parts company, "Woody" is operations-minded. Wants to double sales and productivity in the 1990s. Shifting production to small regional factories, developing close partnerships with customers. Looks to apply similar tactics in Europe, balance cycles in Detroit with aftermarket.

DANAHER

GEORGE SHERMAN

Washington, D. C. *202-828-0850*

SALES: *$756 mil.* PROFITS: *$47 mil.*

MARKET VALUE: *$401 mil.*

▶ Born 8/16/41, New York, N. Y.; BS, Long Island, 1963; MBA, Louisville, 1971. Career path–administration; tenure–10 months, CEO 10 months. Compensation: 1989 salary & bonus, NA[6]; ownership, 33,000 shares.[8] ▶ The raiding Rales brothers lured him from Black & Decker to run their innovative grab bag of Rust Belt companies. Fast-growing conglomerate makes gas-pump equipment, drill chucks, tool boxes. Operations expert will preside over empire's consolidation. Why Danaher name? It's a teeming Montana creek where the Raleses fish.

DAUPHIN DEPOSIT

WILLIAM JOSEPH KING

Harrisburg, Pa. *717-255-2121*

SALES: *$329 mil.* PROFITS: *$44 mil.*

MARKET VALUE: *$351 mil.*

▶ Born 3/13/29, Philadelphia, Pa.; BBA, U. of Pa., 1971; MBA, LaSalle, 1979. Career path–finance/accounting; tenure–11 years, CEO 4 years. Compensation: 1989 salary & bonus, $423,000; ownership, 9,000 shares. ▶ His cautious, close-to-home approach looks good now, as bank rides out soft regional economy. He has little real estate exposure, and he's looking to build new branches in Lehigh Valley, which is still thriving. Fishes the Susquehanna for bass, local streams for trout. But can he keep growing without angling in riskier waters?

FOOTNOTES APPEAR ON PAGE 292

DAYTON HUDSON

[redacted]

Minneapolis, Minn. *612-370-6948*

SALES: *$13.6 bil.* PROFITS: *$410 mil.*

MARKET VALUE: *$4 bil.*

▶ BORN 12/16/38, TEMPLETON, IOWA; BS (RETAILING), DRAKE, 1961. CAREER PATH—MERCHANDISING/MARKETING; TENURE—29 YEARS, CEO 7 YEARS. COMPENSATION: 1989 SALARY & BONUS, $1,447,000; OWNERSHIP, 73,000 DIRECT, 27,000 INDIRECT SHARES. ▶ ONCE-OUT-OF-FASHION RETAILER IS BACK IN STYLE. OUTFOXED CRITICS BY BOOSTING EARNINGS. BOUGHT CHICAGO'S MARSHALL FIELD FOR $1 BILLION WITHOUT STRAINING HIS BALANCE SHEET. PERFECT FIT: MOST OF FIELD'S 24 STORES ARE PERFORMING WELL AND LOCATED IN ILLINOIS, FILLING GAP BETWEEN HIS MINNESOTA AND MICHIGAN OUTLETS. OTHER BRIGHT SPOTS: MERVYN'S, TARGET—WHICH ARE CLOBBERING RIVAL K MART. FACES MESSY UNION TIFF OVER NORDSTROM-LIKE SALES INCENTIVE PLAN HE WANTS TO IMPLEMENT. A FAMILY MAN WITH TWO SONS, ADOPTED KOREAN DAUGHTER, AND CABIN UP NORTH. HE LOVES PET LAB, "THATCHER."

DEAN FOODS

HOWARD M. DEAN

Franklin Park, Ill. *708-678-1680*

SALES: *$1.7 bil.* PROFITS: *$60 mil.*

MARKET VALUE: *$921 mil.*

▶ Born 6/27/37, Hinsdale, Ill.; BBA, SMU, 1960; MBA, Northwestern, 1961. Career path–finance/accounting; tenure–25 years, CEO 3 years. Compensation: 1989 salary & bonus, $659,000; ownership, 137,000 direct, 129,000 indirect shares.[8] ▶ With most rivals struggling, he turned in a dazzling year. Kept up brisk acquisition clip, quickened pace of new-product launches. Two with promise: low-lactose milk, liquid version of Slim-Fast weight-loss drink. Also building ties to McDonald's. Founder's grandson loaded delivery trucks as a teenager.

DEERE

HANS W. BECHERER

Moline, Ill. *309-765-8000*

SALES: *$7.2 bil.* PROFITS: *$380 mil.*

MARKET VALUE: *$4.3 bil.*

▶ Born 4/19/35, Detroit, Mich.; BA (history), Trinity, 1957; MBA, Harvard, 1962. Career path–merchandising/marketing; tenure–28 years, CEO 1 year. Compensation: 1989 salary & bonus, $769,000[1]; ownership, 11,000 shares. ▶ He came up through international operations, so now he's pushing exports. But biggest challenge is at home: Stiff competition from Case, Ford means many Deere customers now considering other brands. His response: More new models than ever (peppier, quieter) and quicker service during the harvest season.

DEKALB ENERGY

BRUCE P. BICKNER

Denver, Colo. *303-592-4600*

SALES: *$81 mil.* PROFITS: *$9 mil.*

MARKET VALUE: *$290 mil.*

▶ Born 9/21/43, Chicago, Ill.; BA (polit. sci.), [redacted]aw, 1965; JD, U. of Mich. Law, 1968. Career path–corp. de[redacted]nt; tenure–15 years, CEO 3 years. Compensation: 1989 [redacted]us, $251,000; ownership, 2,000 shares.[8] ▶ A bit of a [redacted]ter-skis [redacted]arefoot, para-sails. But down-to-earth [redacted]this DEK[redacted]B spin-off, one of three created when he l[redacted]mpany in 1988. Holds Canadian oil and gas properties, ju[redacted]$130 million to increase his reserves by buying 36 onshore l[redacted]s properties. He's also CEO of DEKALB Genetics.

DELMARVA POWER & LIGHT

NEVIUS M. CURTIS

Wilmington, Del. *302-429-3011*

SALES: *$790 mil.* PROFITS: *$91 mil.*

MARKET VALUE: *$818 mil.*

▶ Born 8/16/29, Holyoke, Mass.; BA (econ.), Haverford, 1951; MBA (finance), Stanford, 1956. Career path–finance/accounting; tenure–12 years, CEO 9 years. Compensation: 1989 salary & bonus, $360,000[1]; ownership, 6,000 shares.[8] ▶ He gardens for fun, but earnings are wilting. Wood-burning generators are in trouble in California, where wood has become pricey. Startup costs for Pennsylvania trash-to-power project steep, licensing uncertain. And he expects big plant retrofit to meet anti-pollution laws. On plus side, Delaware customer base is growing.

THE CORPORATE ELITE

DELTA AIR LINES

RONALD W. ALLEN

Atlanta, Ga. *404-765-2600*

SALES: *$8.1 bil.* PROFITS: *$461 mil.*

MARKET VALUE: *$2.7 bil.*

▶ Born 11/20/41, Atlanta, Ga.; BIE, Ga. Tech, 1964. Career path–personnel; tenure–27 years, CEO 3 years. Compensation: 1989 salary & bonus, $672,000; ownership, 10,000 shares. ▶ Now he's Mr. International, with service to 27 foreign cities and a long string more on the way, from Barcelona to Tbilisi. Growth in overseas routes means a multibillion-dollar investment for more than 60 new jets. It also means more politicking, so he's been spending more time in Washington and foreign capitals stating his case. Jogging and tennis help him keep in shape.

DELUXE

HAROLD V. HAVERTY

St. Paul, Minn. *612-483-7111*

SALES: *$1.3 bil.* PROFITS: *$153 mil.*

MARKET VALUE: *$2.4 bil.*

▶ Born 5/17/30, Detroit, Mich. Career path–production/manufacturing; tenure–37 years, CEO 4 years. Compensation: 1989 salary & bonus, $597,000; ownership, 44,000 shares. ▶ He probably prints your checks, with more than 50% of the market. Rebounding from rare earnings dip last year, as shift to new high-tech printers boosts productivity. If checkless society ever comes, he's getting ready: Non-check business–software, ATM processing–is now about 30% of revenues. His next challenge: the battle for control of point-of-sale debiting.

DETROIT EDISON

JOHN E. LOBBIA

Detroit, Mich. *313-237-8000*

SALES: *$3.2 bil.* PROFITS: *$426 mil.*

MARKET VALUE: *$4 bil.*

▶ Born 7/12/41, Chicago, Ill.; BS (elect. eng.), U. of Detroit, 1964. Career path–merchandising/marketing, finance/accounting; tenure–26 years, CEO 6 months. Compensation: 1989 salary & bonus, $317,000; ownership, 8,000 shares.[7] ▶ Bridge player's hand probably lacks any big surprises. His utility is quite healthy already. Some of the sheen comes partly from cost-cutting, rate boosts initiated under predecessor. Yet with no fancy diversification in the pipeline, where will the growth come from? Expect more cost cuts as the economy sags.

DEXTER

K. GRAHAME WALKER

Windsor Locks, Conn. *203-627-9051*

SALES: *$849 mil.* PROFITS: *$43 mil.*

MARKET VALUE: *$482 mil.*

▶ Born 6/1/37, W. Bridgeford, England; G. I. Mech. E., Inst. of Mech. Engineers, 1962. Career path–marketing; tenure–23 years, CEO 10 months. Compensation: 1989 salary & bonus, $336,000; ownership, 15,000 shares. ▶ First nonfamily CEO in seven generations, he's doing things his way. Company used to be known for "portfolio managing" a small conglomerate of unrelated businesses. He wants to concentrate on specialty-materials lines, burnish image by putting corporate logo on every product. Expert downhill skier but a duffer at golf.

DIAGNOSTIC PRODUCTS

SIGI ZIERING

Los Angeles, Calif. *213-776-0180*

SALES: *$60 mil.* PROFITS: *$15 mil.*

MARKET VALUE: *$433 mil.*

▶ Born 3/20/28, Kassel, Germany; BS (physics), Brooklyn, 1953; MA (1955), PhD (physics, 1957), Syracuse. Career path–engineering/technical; tenure–17 years, CEO 16 years. Compensation: 1989 salary & bonus, $330,000; ownership, 2,453,000 shares. ▶ Onetime space researcher, now medical testing maven. Leads market for fertility tests, also big in drug testing. Moving into allergy market. Wants to use fewer radioisotopes, so he's pushing new Milenia, automated chemical testing system. Gets 50% of sales overseas. Wife runs marketing.

DIAMOND SHAMROCK

ROGER R. HEMMINGHAUS

San Antonio, Tex. *512-641-6800*

SALES: *$2.1 bil.* PROFITS: *$60 mil.*

MARKET VALUE: *$530 mil.*

▶ Born 8/27/36, St. Louis, Mo.; BS (chem. eng.), Auburn, 1958. Career path–engineering/technical; tenure–7 years, CEO 4 years. Compensation: 1989 salary & bonus, $596,000; ownership, 50,000 direct, 3,000 indirect shares. ▶ Aggressive regional refiner and marketer, he also operates more than 650 convenience stores. He's expanding those and building his petrochemical operations. Ahead of the pack with reformulated fuel, he launched his brand (successfully) last year. Father of six owns a working farm in Texas hill country.

DIEBOLD

ROBERT W. MAHONEY

Canton, Ohio *216-489-4000*

SALES: *$469 mil.* PROFITS: *$36 mil.*

MARKET VALUE: *$478 mil.*

▶ Born 9/10/36, New York, N. Y.; BS (business), Villanova, 1958; MBA, Roosevelt, 1961. Career path–merchandising/marketing; tenure–8 years, CEO 5 years. Compensation: 1989 salary & bonus, $424,000; ownership, 12,000 shares. ▶ Wants to sell more ATMs that dispense marks, pounds, yen. Long the domestic leader, he trails neighbor (and ex-employer) NCR abroad–a market that's growing faster. Solution: joint venture with IBM. Into new products, too. One gadget offers selection of videos for rental or purchase, bills user's credit card.

DIGITAL EQUIPMENT

KENNETH HARRY OLSEN

Maynard, Mass. *508-493-5111*

SALES: *$12.9 bil.* PROFITS: *$74.3 mil.*

MARKET VALUE: *$7.9 bil.*

▶ Born 2/20/26, Stratford, Conn.; BS (1950), MS (elect. eng., 1952), MIT. Career path–engineering/technical, entrepreneur; tenure–33 years, CEO 33 years. Compensation: 1989 salary & bonus, $950,000; ownership, 2,403,000 direct, 21,000 indirect shares. ▶ No more Mr. Nice Guy. After three years of down earnings, he's cutting 9,000 from work force. Along the way, he's opting for less consensus management, more autonomous business units. But some things haven't changed: Weekends, he still gardens and flies a small plane to his Maine retreat.

DILLARD DEPARTMENT STORES

WILLIAM THOMAS DILLARD

Little Rock, Ark. *501-376-5200*

SALES: *$3 bil.* PROFITS: *$148 mil.*

MARKET VALUE: *$2.9 bil.*

▶ Born 9/2/14, Mineral Springs, Ark.; BSBA, U. of Ark., 1935; MSBA, Columbia, 1937. Career path–retailing; tenure–52 years, CEO 52 years. Compensation: 1989 salary & bonus, $1,619,000; ownership, 43,000 direct, 17,000 indirect shares.[8] ▶ Sears trainee dropout capped six years of growth and acquisitions at family-owned department-store chain by buying J. B. Ivey. First-quarter net income up 34%. With Dutch shareholder Vendex Intl., company is selling 4 million shares of stock to strengthen balance sheet, add cash hoard for future acquisitions.

DIVERSIFIED ENERGIES

ALBERT D. ETCHELECU

Minneapolis, Minn. *612-342-5101*

SALES: *$843 mil.* PROFITS: *$26 mil.*

MARKET VALUE: *$500 mil.*

▶ Born 9/30/37, Santa Barbara, Calif.; BS (business admin.), U. of Calif. at Santa Barbara, 1958. Career path–merchandising/marketing; tenure–9 years, CEO 9 years. Compensation: 1989 salary & bonus, $627,000; ownership, 7,000 shares. ▶ Has a passion for painting seascapes. Now, he's drawing energy and energy services company together with natural gas giant Arkla. Combined, they'll have 2.7 million customers, a trillion cubic feet of gas. He'll become vice-chairman. "I'm not particularly concerned with being CEO," he explains.

DOMINION RESOURCES

THOMAS E. CAPPS

Richmond, Va. *804-775-5700*

SALES: *$3.7 bil.* PROFITS: *$470 mil.*

MARKET VALUE: *$4.2 bil.*

▶ Born 10/31/35, Wilmington, N. C.; BA (English), U. of N. C., 1958; JD, U. of N. C. Law, 1966. Career path–legal; tenure–6 years, CEO 5 months. Compensation: 1989 salary & bonus, $417,000; ownership, 8,000 shares.[8] ▶ Quickly gaining rep inside company for informal, forward-thinking management style. What he thinks about most is continuing predecessor's effort to convince regulators that Virginia Power, his top unit, should buy most new energy from cogenerators and independent producers, rather than build capacity.

DOVER

GARY L. ROUBOS

New York, N. Y. *212-922-1640*

SALES: *$2.1 bil.* PROFITS: *$144 mil.*

MARKET VALUE: *$2 bil.*

▶ Born 11/7/36, Denver, Colo.; BS (chem. eng.), U. of Colo., 1959; MBA, Harvard, 1963. Career path–merchandising/marketing, production/manufacturing; tenure–19 years, CEO 9 years. Compensation: 1989 salary & bonus, $725,000; ownership, 55,000 shares. ▶ Scaling down buybacks to [illegible] cash for acquisitions. Wants to broaden his industrial products lines, which include elevators, pumps, electronic controls. Believes in entrepreneurial culture, decentralization: operates with seven executives, tiny headquarters staff.

DISNEY (WALT)

MICHAEL DAMMANN EISNER

Burbank, Calif. *818-560-1000*

SALES: *$4.6 bil.* PROFITS: *$703 mil.*

MARKET VALUE: *$13.6 bil.*

▶ Born 3/7/42, Mt. Kisco, N. Y.; BA (English lit./theater), Denison, 1964. Career path–network TV, film; tenure–6 years, CEO 6 years. Compensation: 1989 salary & bonus, $9,589,000; ownership, 353,000 shares. ▶ At Christmas, he sends apples from family's Vermont farm. Sticking with juicy earnings projections, though growth starting to slow. Sluggish theme park attendance worries shareholders. Looking for growth with new record and movie labels, stores for Disney merchandise, fast-food restaurants (Would you believe Mickey's Kitchen?).

DOMINION BANKSHARES

WARNER N. DALHOUSE

Roanoke, Va. *703-563-7000*

SALES: *$1.1 bil.* PROFITS: *$94 mil.*

MARKET VALUE: *$434 mil.*

▶ Born 6/4/34, Roanoke, Va.; BS (commerce), U. of Va., 1956. Career path–merchandising/marketing; tenure–38 years, CEO 9 years. Compensation: 1989 salary & bonus, $684,000; ownership, 34,000 direct, 13,000 indirect shares. ▶ Youthful-looking runner, racquetball enthusiast transformed old-line Virginia bank into regional powerhouse with more than 300 offices. Conservative lending has prevented bad real estate loans from becoming a serious problem, though he has taken a few hits. He gets high marks for instilling *esprit* in managers.

DONNELLEY (R. R.) & SONS

JOHN R. WALTER

Chicago, Ill. *312-326-8000*

SALES: *$3.1 bil.* PROFITS: *$222 mil.*

MARKET VALUE: *$3.1 bil.*

▶ Born 1/20/47, Pittsburgh, Pa.; BS (business admin.), Miami U. (Ohio), 1969. Career path–merchandising/marketing; tenure–21 years, CEO 2 years. Compensation: 1989 salary & bonus, $629,000; ownership, 31,000 shares. ▶ Collects guns, clocks, and–lately–companies. Aims to transform slow-growing commercial printer into multi-national giant. Also moving into financial printing. FTC probe of biggest deal slowed expansion a bit. But recent court approval means full speed ahead, and he'll be buying during an industry downturn.

DOW CHEMICAL

FRANK POPOFF

Midland, Mich. *517-636-1000*

SALES: *$17.6 bil.* PROFITS: *$2.5 bil.*

MARKET VALUE: *$11.3 bil.*

▶ Born 10/27/35, Sofia, Bulgaria; BS (chem., 1957), MBA (1959), Ind. Career path–merchandising/marketing; tenure–31 years, CEO 3 years. Compensation: 1989 salary & bonus, $963,000; ownership, 35,000 direct, 43,000 indirect shares. ▶ Outdoor sports enthusiast (sailing, skiing) wants to make his chemicals giant an environmental good guy. Spent $260 million last year on pollution controls, created vice-president for environment, produced annual report that looks like Sierra Club calendar. Unfortunately, first-half profits off due to slowing economy.

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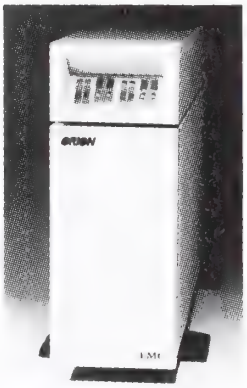

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DOW JONES

WARREN H. PHILLIPS

New York, N. Y. 212-416-2000

SALES: *$1.7 bil.* PROFITS: *$317 mil.*

MARKET VALUE: *$2.2 bil.*

▶ Born 6/28/26, New York, N. Y.; BA (econ.), Queens, 1947. Career path–journalism; tenure–43 years, CEO 16 years. Compensation: 1989 salary & bonus, $780,000; ownership, 19,000 shares. ▶ How now? His $1.6 billion acquisition of Telerate proves a big headache. High-tech push was supposed to balance ad cycles at *Wall Street Journal, Barron's.* But Street's cut back on glowing green screens. Result: His net fell 29% in the first half. But he says he's in it for the long haul, expecting demand for electronic financial information to zoom again.

DPL

PETER H. FORSTER

Dayton, Ohio 513-224-6000

SALES: *$960 mil.* PROFITS: *$147 mil.*

MARKET VALUE: *$1.2 bil.*

▶ Born 5/28/42, Berlin, Germany; BS (elect. eng.), U. of Wis., 1964; JD, Brooklyn Law, 1972. Career path–engineering/technical, legal; tenure–17 years, CEO 6 years. Compensation: 1989 salary & bonus, $568,000; ownership, 14,000 direct, 9,000 indirect shares. ▶ No-nonsense utility boss emphasizes efficiency, productivity. Possible problems from Clean Air Act, but some coal-fired plants already have scrubbers. His educational, community outreach programs won White House honors as one of Bush's "1,000 points of light."

DQE

WESLEY W. VON SCHACK

Pittsburgh, Pa. 412-393-6000

SALES: *$1.1 bil.* PROFITS: *$130 mil.*

MARKET VALUE: *$1.2 bil.*

▶ Born 4/15/44, New York, N. Y.; AB (econ.), Fordham, 1965; MBA, St. John's, 1971; PhD, Pace, 1990. Career path–finance/accounting, admin.; tenure–6 years, CEO 5 years. Compensation: 1989 salary & bonus, $337,000; ownership, 10,000 shares.[7] ▶ Outsider brought in to turn around this utility, he's looking beyond hometown market for growth. Signed $630 million deal to sell electricity to New Jersey utility, build part of new transmission line. Active in local affairs, honored last year by NAACP for affirmative-action leadership.

DRESSER INDUSTRIES

JOHN JOSEPH MURPHY

Dallas, Tex. 214-740-6000

SALES: *$4 bil.* PROFITS: *$163 mil.*

MARKET VALUE: *$3.2 bil.*

▶ Born 11/24/31, Olean, N. Y.; BS (mech. eng.), Rochester Inst. of Tech., 1952; MBA, SMU, 1981. Career path–engineering/technical, production/mfg.; tenure–38 years, CEO 7 years. Compensation: 1989 salary & bonus, $994,000; ownership, 26,000 shares. ▶ After oil-field, mining supplier failed in his bid for Smith International, he's making small acquisitions, gradually spending $400 million nest egg. Aims for 20% ROE and could do better if drilling boom begins. May buy European company soon. Don't brace him at gin rummy; he's good.

DREYFUS

HOWARD M. STEIN

New York, N. Y. 212-922-6000

SALES: *$272 mil.* PROFITS: *$148 mil.*

MARKET VALUE: *$1.1 bil.*

▶ Born 10/6/26, Brooklyn, N. Y. Career path–brokerage; tenure–35 years, CEO 25 years. Compensation: 1989 salary & bonus, $2,384,000; ownership, 920,000 shares. ▶ Soft-spoken, well-respected mutual fund executive. Fighting tooth-and-nail against huge rival Fidelity in hotly competitive world of money market funds. Keeps sales high by waiving management fees, an expensive strategy but one that is making inroads against competitors. At one point he dabbled in Democratic politics, made Nixon's enemies list. Now out of partisan politics.

DSC COMMUNICATIONS

JAMES LEE DONALD

Plano, Tex. 214-519-3000

SALES: *$430 mil.* PROFITS: *$34 mil.*

MARKET VALUE: *$424 mil.*

▶ Born 7/5/31, Carthage, Tex.; BS (1957), MS (eng., 1965), SMU. Career path–engineering/technical, corporate management; tenure–10 years, CEO 9 years. Compensation: 1989 salary & bonus, $787,000; ownership, 379,000 shares. ▶ Boss of worldwide supplier of telecommunications gear sells switching systems, products for local area networks. Recent Optilink acquisition lets him offer cellular goodies as well. But sometimes the stuff gets too exotic: Agreed to settle class action that charged company with defrauding shareholders.

DU PONT

EDGAR S. WOOLARD JR.

Wilmington, Del. 302-774-1000

SALES: *$35.1 bil.* PROFITS: *$2.5 bil.*

MARKET VALUE: *$24.4 bil.*

▶ Born 4/15/34, Washington, N. C.; BS (industrial eng.), N. C. State, 1956. Career path–eng./tech., prod./mfg.; tenure 33 years, CEO 1 year. Compensation: 1989 salary & bonus, $1,474,000; ownership, 61,000 direct, 6,000 indirect shares. ▶ Loves intellectual sparring. Growth in traditional fibers, polymers stuck in single digits, so he's pushing into electronics, pesticides. Put drug business into 50-50 joint venture with Merck. Latest results disappointing in slack economy. Rabid college basketball fan (his alma mater's a powerhouse).

DUKE POWER

WILLIAM STATES LEE

Charlotte, N. C. 704-373-4011

SALES: *$3.6 bil.* PROFITS: *$572 mil.*

MARKET VALUE: *$5.6 bil.*

▶ Born 6/23/29, Charlotte, N. C.; BS (civil eng.), Princeton, 1951. Career path–engineering/technical; tenure–36 years, CEO 8 years. Compensation: 1989 salary & bonus, $551,000; ownership, 48,000 shares.[7] ▶ One of his industry's livest wires, he has 4.5 million customers and three nuclear plants. To keep them humming, he's building his own enrichment facility. So far, he's managed to cut costs without cutting employment, but operating and maintenance expenses from reactor outages have pulled earnings down. He skis–on snow and water.

THE CORPORATE ELITE

DUN & BRADSTREET

CHARLES W. MORITZ

New York, N. Y. *212-593-6800*

SALES: *$4.3 bil.* PROFITS: *$586 mil.*

MARKET VALUE: *$7.8 bil.*

▶ Born 8/22/36, Washington, D. C.; BA, Yale, 1958. Career path–merchandising/marketing; tenure–30 years, CEO 6 years. Compensation: 1989 salary & bonus, $1,272,000; ownership, 68,000 direct, 1,000 indirect shares. ▶ Working hard to put over-billing scandal behind him. His predictions that it wouldn't hurt earnings were wrong. Company settled class action from credit-data customers, spent heavily to create better internal controls. But stock price, reputation have yet to recover. Next challenge: Tough competition at his Nielsen research.

E-SYSTEMS

E. GENE KEIFFER

Dallas, Tex. *214-661-1000*

SALES: *$1.6 bil.* PROFITS: *$83 mil.*

MARKET VALUE: *$844 mil.*

▶ Born 8/25/29, Dallas, Tex.; BS (1955), MS (electronic eng., 1962), SMU. Career path–engineering/technical; tenure–40 years, CEO 1 year. Compensation: 1989 salary & bonus, $753,000; ownership, 21,000 shares.[7] ▶ Expects to keep tuning in steady growth at defense contractor. Analysts also like prospects, thanks to $2.5 billion backlog of orders, the fact that many of firm's major projects aren't tied to large weapons systems. About 85% of revenues come from reconnaissance, surveillance, communications programs–all still in demand.

EASTERN ENTERPRISES

ROBERT WEINIG

Weston, Mass. *617-647-2300*

SALES: *$840 mil.* PROFITS: *$57 mil.*

MARKET VALUE: *$584 mil.*

▶ Born 8/3/30, Columbus, Ohio; BA (business), Dartmouth, 1952; MBA, Amos Tuck (Dartmouth), 1955. Career path–finance/accounting; tenure–24 years, CEO 3 years. Compensation: 1989 salary & bonus, $479,000; ownership, 25,000 shares. ▶ After one deal fell through, he tried again–and finally sold his Peabody coal subsidiary in April. Using proceeds to expand in water products (purification systems, controls). With 5% annual growth, he expects this to become company's third major business–along with Inland Barge and Boston Gas.

EASTERN UTILITIES ASSOCIATES

DONALD GENE PARDUS

Boston, Mass. *617-357-9590*

SALES: *$409 mil.* PROFITS: *$45 mil.*

MARKET VALUE: *$419 mil.*

▶ Born 8/1/40, Stafford, Conn.; BS (business, accounting), U. of Hartford, 1966. Career path–finance/accounting; tenure–11 years, CEO 1 year. Compensation: 1989 salary & bonus, $338,000; ownership, 7,000 shares. ▶ Shirtsleeves manager's motto: "Call me Don, and call me anytime." Still, he's known for hostile takeovers (two now under way) in an industry where they're rare. Hurt by soft economy in Northeast, has 15% stake in Seabrook nuclear plant. He's optimistic about long-term contracts, but for now he's selling its output below cost.

EASTMAN KODAK

KAY R. WHITMORE

Rochester, N. Y. *716-724-4000*

SALES: *$18.4 bil.* PROFITS: *$529 mil.*

MARKET VALUE: *$13.1 bil.*

▶ Born 7/24/32, Salt Lake City, Utah; BS (chem.), U. of Utah, 1957; MS (mgmt.), MIT, 1975. Career path–engineering; tenure–33 years, CEO 4 months. Compensation: 1989 salary & bonus, $1,067,000; ownership, 5,000 shares. ▶ Results-oriented boss takes over after four restructurings in five years. Price boost on consumer film finally stuck, chemicals may have bottomed. But copier, graphic-arts units struggling, Sterling Drug's a long way from sterling. Will soon know damages owed Polaroid for patent infringement.

EATON

JAMES ROBERT STOVER

Cleveland, Ohio *216-523-5000*

SALES: *$3.7 bil.* PROFITS: *$210 mil.*

MARKET VALUE: *$1.8 bil.*

▶ Born 1/12/27, Marion, Ind.; BME, Catholic U. of America, 1950; LLB, George Washington Law, 1955. Career path–engineering/technical, production/manufacturing; tenure–35 years, CEO 4 years. Compensation: 1989 salary & bonus, $1,150,000; ownership, 33,000 direct, 16,000 indirect shares. ▶ Core markets–truck components, electrical controls–sputtering. So he's making niche acquisitions and cutting costs. Bright spots: auto superchargers, valve sales, since today's high-efficiency engines need four valves per cylinder instead of two.

ECHLIN

FREDERICK J. MANCHESKI

Branford, Conn. *203-481-5751*

SALES: *$1.5 bil.* PROFITS: *$44 mil.*

MARKET VALUE: *$621 mil.*

▶ Born 7/21/26, Stevens Point, Wis.; BS (mech. eng.), U. of Wis., 1948. Career path–production/manufacturing; tenure–28 years, CEO 21 years. Compensation: 1989 salary & bonus, $560,000; ownership, 464,000 direct, 14,000 indirect shares. ▶ Hard-driver doubled revenues in five years. Yet profits last year were lowest since 1984, and this year were down 18% in the first nine months. Sees international markets, now one-fourth of sales, as best hope for maker, distributor of car replacement parts. New president formerly ran European operations.

ECOLAB

PIERSON M. GRIEVE

St. Paul, Minn. *612-293-2233*

SALES: *$1.3 bil.* PROFITS: *$3 mil.*

MARKET VALUE: *$517 mil.*

▶ Born 12/5/27, Flint, Mich.; BA (business), Northwestern, 1950. Career path–business; tenure–8 years, CEO 8 years. Compensation: 1989 salary & bonus, $488,000; ownership, 123,000 direct, 16,000 indirect shares. ▶ "Sandy" is a true believer. Put his stock options into single plan that sets his price at $30, 20% above stock's value at the time. Agreed to joint venture with West Germany's Henkel KGaA to boost European presence. ChemLawn unit losing less, but took big restructuring hit. Witty boss likes to leave audiences laughing. Hunts birds.

FOOTNOTES APPEAR ON PAGE 292

EDISON BROTHERS STORES

ANDREW E. NEWMAN

St. Louis, Mo. *314-331-6000*

SALES: *$1.1 bil.* PROFITS: *$61 mil.*

MARKET VALUE: *$581 mil.*

▶ Born 8/14/44, St. Louis, Mo.; AB (Eng. lit., 1966), MBA (1968), Harvard. Career path–merchandising/marketing; tenure–20 years, CEO 3 years. Compensation: 1989 salary & bonus, $687,000; ownership, 394,000 direct, 1,000 indirect shares. ▶ Up through the shoe division, he's now lacing up sturdy profits at apparel and entertainment company. Has phased out more than 450 unprofitable stores, converted many to higher-margin goods, putting difficult mid-'80s behind him. A jukebox buff, he's bought 48 amusement-game centers–a first for the company.

EDWARDS (A. G.)

BENJAMIN FRANKLIN EDWARDS III

St. Louis, Mo. *314-289-3000*

SALES: *$607 mil.* PROFITS: *$59 mil.*

MARKET VALUE: *$497 mil.*

▶ Born 10/26/31, St. Louis, Mo.; BA (econ.), Princeton, 1953. Career path–brokerage; tenure–34 years, CEO 23 years. Compensation: 1989 salary & bonus, $653,000; ownership, 240,000 direct, 34,000 indirect shares. ▶ Folksy manner belies hard-driving plans by third-generation boss. Happy with recent revenue growth, frustrated that brokerage's profits haven't topped 1987 levels. Focuses on selling stocks, bonds to retail customers, nothing fancy. Now, has more than 400 offices nationwide, but continued growth will be tough in the coming year.

EG&G

JOHN M. KUCHARSKI

Wellesley, Mass. *617-237-5100*

SALES: *$1.7 bil.* PROFITS: *$70 mil.*

MARKET VALUE: *$1 bil.*

▶ Born 2/10/36, Milwaukee, Wis.; BS (elect. eng.), Marquette, 1958; JD, George Washington Law, 1965. Career path–engineering/technical; tenure–18 years, CEO 3 years. Compensation: 1989 salary & bonus, $456,000; ownership, 15,000 shares. ▶ He's been selling off units, aiming to reduce government's share of business and focus on components and instruments. But couldn't say no to this: $2.5 billion contract to manage troubled Rocky Flats plutonium plant. Still looking for acquisitions–and additions to his stamp collection.

EMERSON ELECTRIC

CHARLES F. KNIGHT

St. Louis, Mo. *314-553-2000*

SALES: *$7.1 bil.* PROFITS: *$588 mil.*

MARKET VALUE: *$7.6 bil.*

▶ Born 1/20/36, Lake Forest, Ill.; BS (mech. eng., 1958), MBA (1959), Cornell. Career path–consulting; tenure–18 years, CEO 17 years. Compensation: 1989 salary & bonus, $1,777,000; ownership, 492,000 shares. ▶ One of the toughest competitors around, he's now spinning off his defense operations (sales, $600 million; earnings $15 million pretax) because they don't meet his profit criteria. What does? Electric motors, process controls, appliances–areas where he's managed to best the Japanese. Enjoys racquetball, which he plays on company court.

ELECTRONIC DATA SYSTEMS

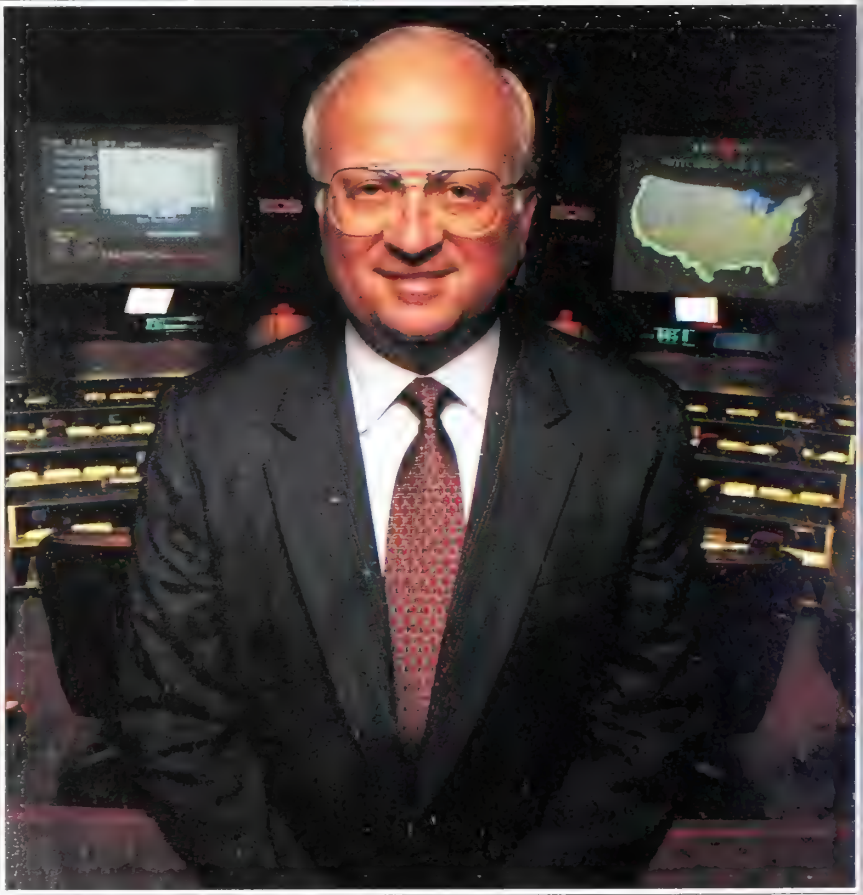
LESTER M. ALBERTHAL JR.

Dallas, Tex. *214-604-6000*

SALES: *$5.4 bil.* PROFITS: *$435 mil.*

MARKET VALUE: *$3 bil.*

▶ BORN 2/27/44, CORPUS CHRISTI, TEX.; BBA (ACCOUNTING), U. OF TEX., 1968. CAREER PATH–ENGINEERING/TECHNICAL; TENURE–22 YEARS, CEO 4 YEARS. COMPENSATION: 1989 SALARY & BONUS, NA[6]; OWNERSHIP, NA.[8] ▶ HE'S BEEN MAKING LOTS OF CHANGES. RESTRUCTURED GIANT COMPUTER-SERVICES FIRM INTO 38 FREE-STANDING BUSINESS UNITS TO IMPROVE PERFORMANCE, FOSTER ENTREPRENEURSHIP. HIS $250 MILLION DEAL TO ACQUIRE 50% OF TEXAS AIR'S SYSTEM ONE MADE HIM THE FIRST NON-AIRLINE PLAYER IN COMPUTERIZED RESERVATIONS–AND HELPS REDUCE DEPENDENCE ON BUSINESS FROM PARENT GM. LOOKING FOR MORE "OUTSOURCING" CONTRACTS FROM COMPANIES EAGER TO TURN OVER DATA PROCESSING TO OUTSIDE VENDORS. BUT WATCH OUT: HE'LL BUTT HEADS WITH EX-BOSS, COMPANY FOUNDER H. ROSS PEROT. HE'S A CAR BUFF. GUESS WHAT CARS HE PREFERS?



THE CORPORATE ELITE

ENERGY SERVICES

CARL F. THORNE

Dallas, Tex. *214-922-1500*

SALES: *$159 mil.* LOSS: *$3 mil.*

MARKET VALUE: *$310 mil.*

▶ Born 11/15/40, Luling, Tex.; BS (petro. eng.), U. of Tex., 1962; JD, Baylor Law, 1967. Career path–engineering/technical; tenure–4 years, CEO 3 years. Compensation: 1989 salary & bonus, $277,000; ownership, 1,270,000 shares. ▶ Installed by financier Richard Rainwater five years ago, he set out to turn around hodgepodge of oil services and equipment. Spearheaded drive to buy the Hunts' Penrod Drilling for $430 million. Will likely sell its land rigs, keep most of offshore rigs. Rising oil prices may make his turnaround complete.

ENGELHARD

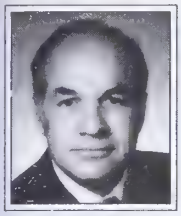
ORIN R. SMITH

Edison, N. J. *201-205-6000*

SALES: *$2.4 bil.* LOSS: *$77 mil.*

MARKET VALUE: *$851 mil.*

▶ Born 8/13/35, Newark, N. J.; AB (econ.), Brown, 1957; MBA, Seton Hall, 1964. Career path–marketing; tenure–14 years, CEO 6 years. Compensation: 1989 salary & bonus, $967,000; ownership, 119,000 direct, 25,000 indirect shares. ▶ Ex-salesman managing for the long term produces specialty chemicals, engineered materials, precious metals. Wants to expand foreign presence, make a few related acquisitions. His goal: Reduce operating costs, earn 15% annual ROE, a target company hasn't hit since 1983. Sails, collects old cars.



ENRON

KENNETH LEE LAY

Houston, Tex. *713-853-6161*

SALES: *$9.8 bil.* PROFITS: *$226 mil.*

MARKET VALUE: *$2.6 bil.*

▶ Born 4/15/42, Tyrone, Mo.; BA (1964), MA (econ., 1965), U. of Mo.; PhD (econ.), U. of Houston, 1970. Career path–economics; tenure–6 years, CEO 6 years. Compensation: 1989 salary & bonus, $1,365,000; ownership, 114,000 shares. ▶ He's spending big to increase market share. Will lay out $537 million this year to expand pipelines, preparing for the day that natural gas finally takes off. Bought CSX gas processing unit in Louisiana. Partner in English cogeneration project, world's largest. Tireless industry cheerleader.

ENRON OIL & GAS

FORREST E. HOGLUND

Houston, Tex. *713-853-5299*

SALES: *$289 mil.* LOSS: *$6 mil.*

MARKET VALUE: *$1.8 bil.*

▶ Born 7/1/33, Lawrence, Kan.; BS (mech. eng.), U. of Kan., 1956. Career path–engineering/technical; tenure–3 years, CEO 3 years. Compensation: 1989 salary & bonus, $631,000; ownership, 420,000 shares. ▶ After slow start in 1989, streamlining starting to pay off. He now has in this Enron spin-off one of the strongest exploration and production companies around. Adding to reserves with big Texas drilling effort. Also opened new outlet for long-held reserves in Big Piney, Wyo., by negotiating new marketing and transportation deals.

ENSERCH

WILLIAM C. MCCORD

Dallas, Tex. *214-651-8700*

SALES: *$2.7 bil.* PROFITS: *$70 mil.*

MARKET VALUE: *$1.6 bil.*

▶ Born 4/1/28, San Antonio, Tex.; BS (mech. eng.), Tex. A&M, 1949. Career path–eng./tech.; tenure–41 years, CEO 20 years. Compensation: 1989 salary & bonus, $744,000; ownership, 3,000 direct, 21,000 indirect shares. ▶ Restructuring diversified energy company, upping spending on exploration, production despite heavy debt. Warm weather hurt core utility unit, but engineering and construction units plenty busy. Agreed to sell its Oklahoma distribution and transmission system to gas-utility Oneok. Active in national Boy Scouts, church.

ENTERGY

EDWIN LUPBERGER

New Orleans, La. *504-529-5262*

SALES: *$3.7 bil.* LOSS: *$397 mil.*

MARKET VALUE: *$3.7 bil.*

▶ Born 6/5/36, Atlanta, Ga.; AB, Davidson, 1958; MBA, Emory, 1963. Career path–finance/accounting; tenure–12 years, CEO 5 years. Compensation: 1989 salary & bonus, $675,000[2]; ownership, 7,000 shares.[7] ▶ Great negotiator runs what was once Middle South Utilities, wangled a truce in regulatory battles that almost caused bankruptcy. Problems stemmed from two troubled nuclear plants–one now operating, one written off. While he's now back on track, he still faces slow growth in his Arkansas-Louisiana-Mississippi service area. Fly fisherman.

EQUIFAX

C. B. ROGERS JR.

Atlanta, Ga. *404-885-8000*

SALES: *$840 mil.* PROFITS: *$36 mil.*

MARKET VALUE: *$812 mil.*

▶ Born 10/24/29, New York, N. Y.; BA (business), Gettysburg, 1951; MBA, George Washington, 1962. Career path–merchandising/marketing; tenure–3 years, CEO 1 year. Compensation: 1989 salary & bonus, $600,000; ownership, 104,000 direct, 2,000 indirect shares. ▶ Veteran IBMer brings loads of techie knowhow to credit-check company. Made quick splash buying Telecredit point-of-purchase check-authorization service for $600 million. Biggest challenges: boosting profits in insurance services, smoothing out European data-base joint venture.

EQUITABLE RESOURCES

DONALD I. MORITZ

Pittsburgh, Pa. *412-261-3000*

SALES: *$512 mil.* PROFITS: *$51 mil.*

MARKET VALUE: *$775 mil.*

▶ Born 10/23/27, McKeesport, Pa.; BS (business), U. of Pittsburgh, 1948; LLB, U. of Pittsburgh Law, 1951. Career path–legal; tenure–38 years, CEO 12 years. Compensation: 1989 salary & bonus, $433,000; ownership, 27,000 shares. ▶ Thinks gas business is ready to ignite. Warm weather in service area chills current earnings, but he's drilling in Gulf of Mexico. Success rate so far: 50%. Wants to be able to boost earnings by selling more fuel to less-well-fixed utilities. Helping improve gas-powered cars, air conditioning. Into crossword puzzles.

ETHYL

FLOYD DEWEY GOTTWALD JR.

Richmond, Va. *804-788-5000*

SALES: *$2.4 bil.* PROFITS: *$219 mil.*

MARKET VALUE: *$3.3 bil.*

▶ Born 7/29/22, Richmond, Va.; BS (chem.), Va. Mil. Inst., 1943; MS (business admin.), U. of Richmond, 1951. Career path–production/manufacturing; tenure–47 years, CEO 20 years. Compensation: 1989 salary & bonus, $861,000; ownership, 5,733,000 direct, 4,872,000 indirect shares. ▶ Low-key exec has a strategy: increase presence in core businesses of chemicals and insurance. Latest effort is high performance gasoline additive that could mean $300 million in sales after EPA approval (expected this fall). Meanwhile, he's overseeing chemical expansion.

EXXON

LAWRENCE G. RAWL

Irving, Tex. *214-444-1000*

SALES: *$86.7 bil.* PROFITS: *$3 bil.*

MARKET VALUE: *$62.4 bil.*

▶ Born 5/4/28, Lyndhurst, N. J.; BS (petro. eng.), U. of Okla., 1952. Career path–engineering/technical; tenure–38 years, CEO 4 years. Compensation: 1989 salary & bonus, $1,385,000; ownership, 121,000 direct, 22,000 indirect shares. ▶ Valdez spill would have sunk a smaller company, but not the leviathan of oil, though the $2 billion cleanup soiled its earnings record. And its boss seems thick-skinned enough to take any amount of criticism. The fast-changing Mideast situation raises new uncertainties, but the future still looks bright.

FAMILY DOLLAR STORES

LEON LEVINE

Matthews, N. C. *704-847-6961*

SALES: *$757 mil.* PROFITS: *$22 mil.*

MARKET VALUE: *$316 mil.*

▶ Born 6/8/37, Wadesboro, N. C.; attended Wingate, U. of Miami. Career path–merchandising/marketing; tenure–31 years, CEO 31 years. Compensation: 1989 salary & bonus, $500,000; ownership, 7,914,000 shares. ▶ Retailing's in his blood: At 13, when his father died, he helped run the family store. Founded this chain at age 22. Earnings back up, thanks to more aggressive advertising mailers to low- and low-middle income consumers. (Maximum price on any item: $18). Added 100 stores this year, for a total of 1,680. He likes bowling.

FEDERAL EXPRESS

FREDERICK WALLACE SMITH

Memphis, Tenn. *901-369-3600*

SALES: *$5.2 bil.* PROFITS: *$166 mil.*

MARKET VALUE: *$2.1 bil.*

▶ Born 8/11/44, Marks, Miss.; BA (political sci., econ.), Yale, 1966. Career path–transportation; tenure–17 years, CEO 17 years. Compensation: 1989 salary & bonus, $579,000; ownership, 3,245,000 direct, 1,035,000 indirect shares.[8] ▶ Visionary delivery mogul may regret the day he bought Tiger International. Integrating Flying Tiger system, paying for global infrastructure has been one big money-losing fiasco. Shook up top management in May. Turned down offer of franchise in NFL's new World League, wants a *real* NFL team for Memphis.

FEDERAL HOME LOAN MORTGAGE

LELAND C. BRENDSEL

Reston, Va. *703-759-8000*

SALES: *$3.8 bil.* PROFITS: *$437 mil.*

MARKET VALUE: *$3.6 bil.*

▶ Born 4/22/42, Sioux Falls, S. D.; BS (econ.), U. of Colo., 1967; PhD (fin., econ.), Northwestern, 1974. Career path–finance/accounting; tenure–8 years, CEO 5 years. Compensation: 1989 salary & bonus, $368,000[5]; ownership, 13,000 shares.[7] ▶ Dad was a hog farmer; he became a professor. Now, heads former federal agency (Freddie Mac) that went public as part of S&L bailout. Packages mortgage loans for resale to investors. New capital rules for banks will help business, but must keep credit quality up, avoid over-exposure in depressed areas.

FEDERAL NATIONAL MORTGAGE ASSN.

DAVID O. MAXWELL

Washington, D. C. *202-752-7000*

SALES: *$11.6 bil.* PROFITS: *$807 mil.*

MARKET VALUE: *$7.2 bil.*

▶ Born 5/16/30, Philadelphia, Pa.; BA, Yale, 1952; JD, Harvard Law, 1955. Career path–financial services; tenure–9 years, CEO 9 years. Compensation: 1989 salary & bonus, $1,318,000; ownership, 1,000 direct, 102,000 indirect shares.[7] ▶ Turned loser into big profitmaker. Now, he'll call it a career at year's end, turn reins over to Vice-Chairman James Johnson. But he's put plans in place to sell mortgage-backed securities to foreign investors. Boon from S&L mess: New regs give lenders push to sell mortgages to Fannie Mae instead of holding.

FEDERAL PAPER BOARD

JOHN R. KENNEDY

Montvale, N. J. *201-391-1776*

SALES: *$1.3 bil.* PROFITS: *$205 mil.*

MARKET VALUE: *$699 mil.*

▶ Born 9/21/30, New York, N. Y.; BS, Georgetown, 1952. Career path–merchandising/marketing; tenure–38 years, CEO 23 years. Compensation: 1989 salary & bonus, $922,000[1]; ownership, 518,000 direct, 273,000 indirect shares.[8] ▶ Thorough manager knows all sides of paper business. In for a down this year after a stellar '89. Yet he's confident company can ride through '90s in good shape. One major reason: In wood products, now has a production cost advantage over its competitors, though since there could be excess capacity for years.

FEDERAL REALTY INVESTMENT TRUST

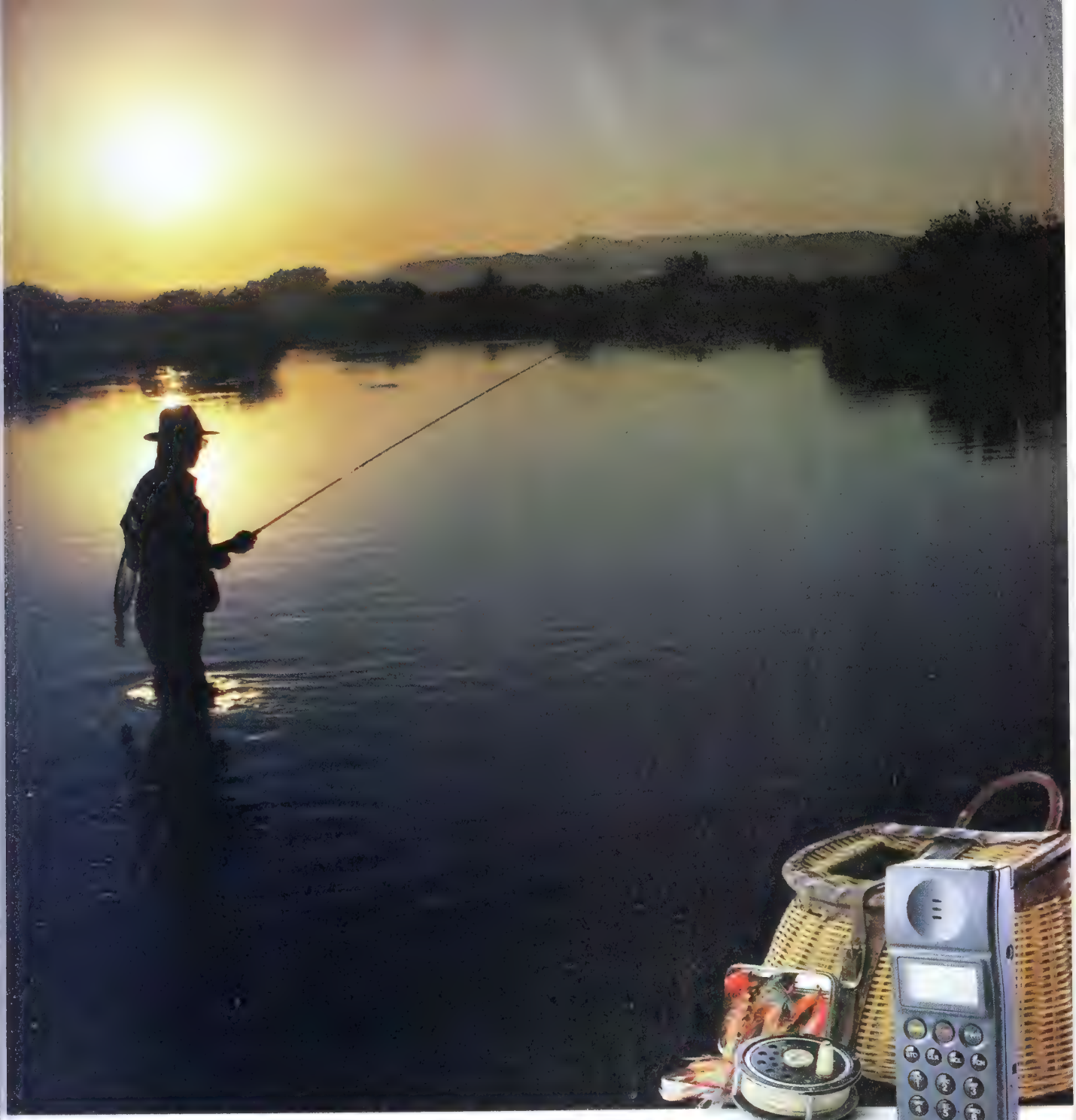
STEVEN JAY GUTTMAN

Bethesda, Md. *301-652-3360*

SALES: *$83 mil.* PROFITS: *$12 mil.*

MARKET VALUE: *$296 mil.*

▶ Born 7/19/46, Pittsburgh, Pa.; BA (liberal arts), U. of Pittsburgh, 1968; JD, George Washington Law, 1972. Career path–real estate; tenure–18 years, CEO 10 years. Compensation: 1989 salary & bonus, $601,000; ownership, 208,000 direct, 39,000 indirect shares.[7] ▶ Peacocks, pygmy goats, miniature donkeys–you'll find 'em all at his farm. But nothing exotic at the office. REIT redevelops older strip centers in established areas where new malls are likely to be built. Challenge: Find tenants for bankrupt Ames stores at two big projects.



YOU CAN'T TAKE THE CALL IF YOU DON'T TAKE THE PHONE.

Let's face it, most so-called portable cellular phones are not all that portable. They're heavy, cumbersome and quickly become an unwelcome burden on the road.

Enter the NEC P300. It's the first portable cellular phone that lives up to its description.

At only 7.2″ x 2.3″ x 1.0″ and a featherweight 14 ounces, it's a great travelling companion.

Yet, tiny as the P300 is, it's packed with handy features. Like a flip-up antenna, a sophisticated alphanumeric memory, a 99-number speed dial, multi-NAM capabilities—even a built-in clock.

The NEC P300. It takes the hassle out of taking the phone.

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NEC

FEDERAL SIGNAL

JOSEPH J. ROSS

Oak Brook, Ill. *708-954-2000*

SALES: *$414 mil.* PROFITS: *$23 mil.*

MARKET VALUE: *$360 mil.*

▶ Born 9/26/45, Oak Park, Ill.; BA (econ.), St. Mary's, 1967; JD, DePaul Law, 1969. Career path–legal; tenure–7 years, CEO 3 years. Compensation: 1989 salary & bonus, $421,000; ownership, 39,000 shares. ▶ He makes signs, police and fire signals, machine tools, fire trucks. What's the common thread? All his products are leaders in niche markets. If not, out they go. (He just sold a fire-alarm business that didn't measure up.) He's looking for acquisitions in Europe, where he thinks 1992 standards will favor several of his products.

FEDERAL-MOGUL

DENNIS J. GORMLEY

Southfield, Mich. *313-354-7700*

SALES: *$1.1 bil.* PROFITS: *$33 mil.*

MARKET VALUE: *$390 mil.*

▶ Born 11/28/39, Staten Island, N.Y.; BS (mech. eng.), RPI, 1963. Career path–merchandising/marketing; tenure–28 years, CEO 1 year. Compensation: 1989 salary & bonus, $412,000; ownership, 80,000 direct, 2,000 indirect shares. ▶ Woodworking buff keeps one of his own model ships on his desk. Now, carving out new course for sluggish auto parts maker. Wants to slash inventory, improve productivity by 30%, reduce scrap cost and rework by $11 million, and double return on investment over the next several years. Buzzword: participatory management.

FERRO

ADOLPH POSNICK

Cleveland, Ohio *216-641-8580*

SALES: *$1.1 bil.* PROFITS: *$50 mil.*

MARKET VALUE: *$441 mil.*

▶ Born 5/3/26, Yellow Creek, Saskatchewan, Canada; BS (ceramic eng.), U. of Saskatchewan, 1947. Career path–general management; tenure–43 years, CEO 14 years. Compensation: 1989 salary & bonus, $634,000; ownership, 103,000 direct, 6,000 indirect shares. ▶ His last year before retirement, and swan song hits sour notes. Turmoil in Latin America, especially Brazil, plus sluggish U.S. demand crimp earnings of specialty-materials maker. In annual rite, battling takeover rumors. He's helping to write and edit history of company's first 70 years.

FHP INTERNATIONAL

LEWIS ROBERT GUMBINER

Fountain Valley, Calif. *714-963-7233*

SALES: *$699 mil.* PROFITS: *$22 mil.*

MARKET VALUE: *$377 mil.*

▶ Born 1/31/23, St. Louis, Mo.; BS, Ind., 1945; MD, Ind. School of Medicine, 1948. Career path–medicine; tenure–29 years, CEO 29 years. Compensation: 1989 salary & bonus, $1,212,000; ownership, 28,000 direct, 2,859,000 indirect shares. ▶ He's healthy. Takes daily morning swims in ocean outside his Long Beach home, sails, plays racquetball. But then health's his business: Company provides full range of health care services–from pharmacies to specialty care–on membership basis. Recent coup: Landed big account with Xerox benefit plans.

FIFTH THIRD BANCORP

CLEMENT LAWRENCE BUENGER

Cincinnati, Ohio *513-579-5300*

SALES: *$768 mil.* PROFITS: *$108 mil.*

MARKET VALUE: *$1.1 bil.*

▶ Born 4/27/26, Ft. Thomas, Ky.; BSBA (finance), Xavier, 1950. Career path–finance/accounting; tenure–21 years, CEO 12 years. Compensation: 1989 salary & bonus, $666,000; ownership, 173,000 shares. ▶ Who says Cincinnati's provincial? He's writing off Third World loans just like the big boys. Earnings gains shouldn't match usual double-digits, but profitability remains strong, as does capital. Retiring soon, he has successor George Schaefer ready. Then he'll head Fine Arts Fund drive, tough task after Robert Mapplethorpe brouhaha.

FIGGIE INTERNATIONAL

HARRY E. FIGGIE JR.

Willoughby, Ohio *216-953-2700*

SALES: *$1.3 bil.* PROFITS: *$63 mil.*

MARKET VALUE: *$514 mil.*

▶ Born 10/28/23, Lakewood, Ohio; BS (met. eng., 1947), MA (ind. eng., 1953), Case Inst. of Tech.; MBA, Harvard, 1949; JD, Cleveland Marshall Law, 1954. Career path–sales, manufacturing; tenure–27 years, CEO 27 years. Compensation: 1989 salary & bonus, $1,463,000; ownership, 466,000 direct, 526,000 indirect shares.[8] ▶ Profits at his sprawling conglomerate–everything from baseballs to electronics–flagging after years of gains. He's launched drive to consolidate plants, still has time to ride public-policy obsessions. It's budget deficit this year.

FINGERHUT

THEODORE DEIKEL

Minnetonka, Minn. *612-932-3100*

SALES: *$1.1 bil.* PROFITS: *$39 mil.*

MARKET VALUE: *$446 mil.*

▶ Born 10/5/35, Minneapolis, Minn.; attended U. of Minn. Career path–merchandising/marketing; tenure–11 months, CEO 11 months. Compensation: 1989 salary & bonus, $800,000[7]; ownership, 262,000 shares. ▶ Fireball mail-order marketer heads spin-off still 70%-owned by Sandy Weill's Primerica. Avowed goal is knocking Sears out of catalog business. He's launching telemarketing campaign, working to improve customer service. Could become very rich: Has option on 2.66 million shares at $10.91; worth $15 million at $16.50 offering price.

FIRST ALABAMA BANCSHARES

JAMES STANLEY MACKIN

Birmingham, Ala. *205-326-7100*

SALES: *$568 mil.* PROFITS: *$63 mil.*

MARKET VALUE: *$541 mil.*

▶ Born 7/30/32, Birmingham, Ala.; BS (indust. mgmt.), Auburn, 1954. Career path–banking, real estate; tenure–2 months, CEO 2 months. Compensation: 1989 salary & bonus, $288,000; ownership, 36,000 shares. ▶ No gain, no pain. The real estate excesses of the late '80s passed Alabama by, so he's inheriting a strong loan portfolio. He headed bank's real estate lending and takes over from retiring Willard Hurley on a wave of record earnings. Don't expect changes in conservative lending philosophy. An Auburn fan, he enjoys fishing, sailing.

FIRST BANK SYSTEM

JOHN F. GRUNDHOFER

Minneapolis, Minn. *612-370-4646*

SALES: *$2.5 bil.* PROFITS: *$2 mil.*

MARKET VALUE: *$787 mil.*

▶ Born 1/1/39, Los Angeles, Calif.; BA (econ.), Loyola, 1960; MBA (finance), USC, 1964. Career path–finance/accounting; tenure–9 months, CEO 9 months. Compensation: 1989 salary & bonus, NA[6]; ownership, 10,000 shares.[7] ▶ Arrives holding a pair of aces: An outsider, he bears no burden for past mistakes. And broad powers from board let him do whatever it takes to get this troubled bank holding company back on track. Wells Fargo veteran is energetic, decisive, sometimes abrupt. Give him at least two years for a turnaround, he asks.

FIRST BRANDS

ALFRED E. DUDLEY

Danbury, Conn. *203-731-2300*

SALES: *$1.2 bil.* PROFITS: *$56 mil.*

MARKET VALUE: *$470 mil.*

▶ Born 9/12/28, Fremont, Ohio; BS, Bowling Green, 1951. Career path–operations; tenure–4 years, CEO 4 years. Compensation: 1989 salary & bonus, $598,000; ownership, 240,000 shares. ▶ Quiet, press-shy boss worked his way up the Union Carbide ladder. Suddenly, he's an entrepreneur, leading home and auto products spin-off after 1986 raid. Trimmed work force, sold operations, beefed up marketing and R&D. Result: product extensions from such brands as Glad bags, Simoniz car wax, Prestone antifreeze. Went public last December.

FIRST CHICAGO

BARRY F. SULLIVAN

Chicago, Ill. *312-732-4000*

SALES: *$5.6 bil.* PROFITS: *$359 mil.*

MARKET VALUE: *$1.5 bil.*

▶ Born 12/21/30, Bronx, N. Y.; BA, Columbia, 1955; MBA, U. of Chicago, 1957. Career path–banking; tenure–10 years, CEO 10 years. Compensation: 1989 salary & bonus, $1,461,000; ownership, 215,000 direct, 12,000 indirect shares. ▶ Hard to keep those Irish eyes smiling: Inability to live up to rosy forecasts sparked investor lawsuits after bank tipped stock analysts to upcoming woes. Heavy loans to scandal-plagued VMS Realty have hurt. Professes a stay-the-course strategy, though he recently brought in a new CFO from thriving Norwest Corp.

FIRST CITY BANCORP. OF TEXAS

A. ROBERT ABBOUD

Houston, Tex. *713-658-6011*

SALES: *$1.5 bil.* PROFITS: *$112 mil.*

MARKET VALUE: *$349 mil.*

▶ Born 5/29/29, Boston, Mass.; BA (1951), MBA (1958), Harvard; JD, Harvard Law, 1956. Career path–finance/accounting; tenure–2 years, CEO 2 years. Compensation: 1989 salary & bonus, $739,000; ownership, 131,000 direct, 1,594,000 indirect shares. ▶ Quick turnaround of troubled bank built his Texas reputation, but forays further afield have hurt. LBO lending, Drexel financing jeopardizing $79 million in loans. Vows to collect every cent. Meantime, he's pushing investment banking and retail–supermarket branches, loans-by-phone.

FIRST EMPIRE STATE

ROBERT G. WILMERS

Buffalo, N. Y. *716-842-5445*

SALES: *$628 mil.* PROFITS: *$51 mil.*

MARKET VALUE: *$356 mil.*

▶ Born 4/20/34, New York, N. Y.; AB (business), Harvard, 1956. Career path–banking; tenure–8 years, CEO 7 years. Compensation: 1989 salary & bonus, $475,000; ownership, 500,000 direct, 3,000 indirect shares. ▶ Is he reading the wrong script? Other Northeast bankers may be in trouble but his earnings are up, credit problems are minimal, and expenses under control. Just acquired Monroe Savings Bank from RTC, and adding its 11 branches to his retail chain will temporarily depress results. Raised in Belgium, he enjoys skiing, squash, tennis.

FIRST FIDELITY BANCORPORATION

ANTHONY P. TERRACCIANO

Lawrenceville, N. J. *609-895-6800*

SALES: *$3 bil.* PROFITS: *$160 mil.*

MARKET VALUE: *$821 mil.*

▶ Born 10/27/38, Bayonne, N. J.; AB (econ.), St. Peter's, 1960; MA (philosophy), Fordham, 1962. Career path–commercial banking; tenure–8 months, CEO 8 months. Compensation: 1989 salary & bonus, NA[6]; ownership, 1,000 shares. ▶ Former No. 2 at Chase, Mellon, with turnaround assignment. So far, he's cut jobs (1,400 out of 13,500), shaken up management, and moved to standardize lending. Also must improve productivity–unusually low among regional banks. Jesuit-trained former philosophy teacher, he's also into cooking. Best dish: spaghetti.

FIRST FINANCIAL MANAGEMENT

PATRICK H. THOMAS

Atlanta, Ga. *404-321-0120*

SALES: *$857 mil.* PROFITS: *$57 mil.*

MARKET VALUE: *$520 mil.*

▶ Born 8/29/42, Atlanta, Ga.; BS, Ga. State, 1971. Career path–banking, data processing; tenure–19 years, CEO 16 years. Compensation: 1989 salary & bonus, $2,506,000; ownership, 455,000 shares.[7] ▶ Hunts anything that "walks, creeps, or crawls," he says. Add to the list: almost any business that generates cash. Big in credit-card processing, he's pushing toward $1 billion mark via acquisition. Bought an S&L and a consumer finance business last year. Latest takeover is Zytron, microfilm subsidiary of Dun & Bradstreet.

FIRST FLORIDA BANKS

A. BRONSON THAYER

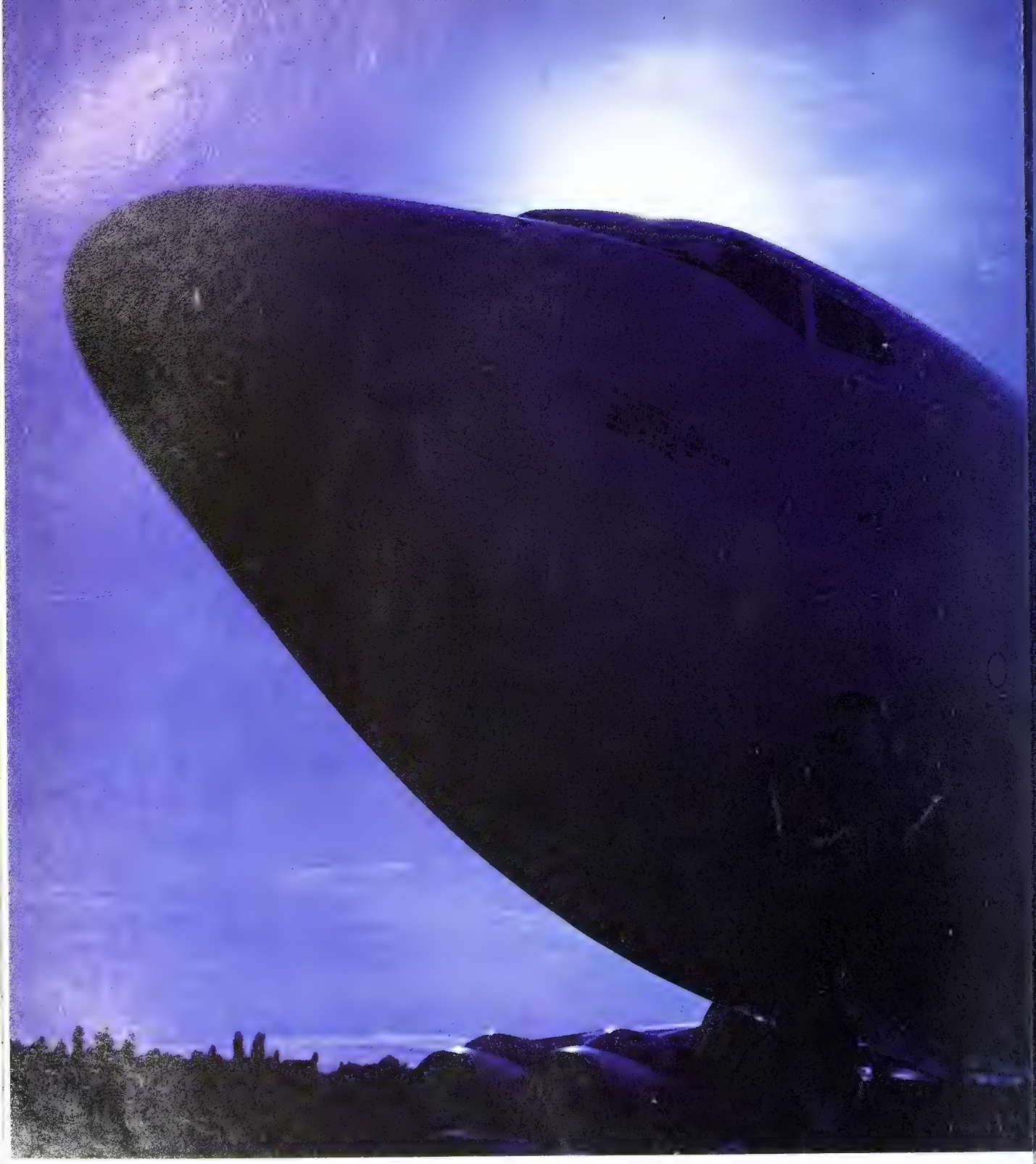
Tampa, Fla. *813-224-1111*

SALES: *$551 mil.* PROFITS: *$39 mil.*

MARKET VALUE: *$292 mil.*

▶ Born 9/2/39, Mineola, N. Y.; BA (finance), Harvard, 1961; MBA (finance), NYU, 1967. Career path–finance/accounting, banking; tenure–19 years, CEO 8 years. Compensation: 1989 salary & bonus, NA[2]; ownership, 11,000 shares. ▶ Avid polo player who'd probably rather be with the horses right now. Bank's taking lumps in real estate market, with 300 layoffs and first-half net off 28%. So this banker's doffing some of his conservative ways. Expanding into data processing for small banks, S&Ls. Acquired Mid-State Florida Bank.

FOOTNOTES APPEAR ON PAGE 292



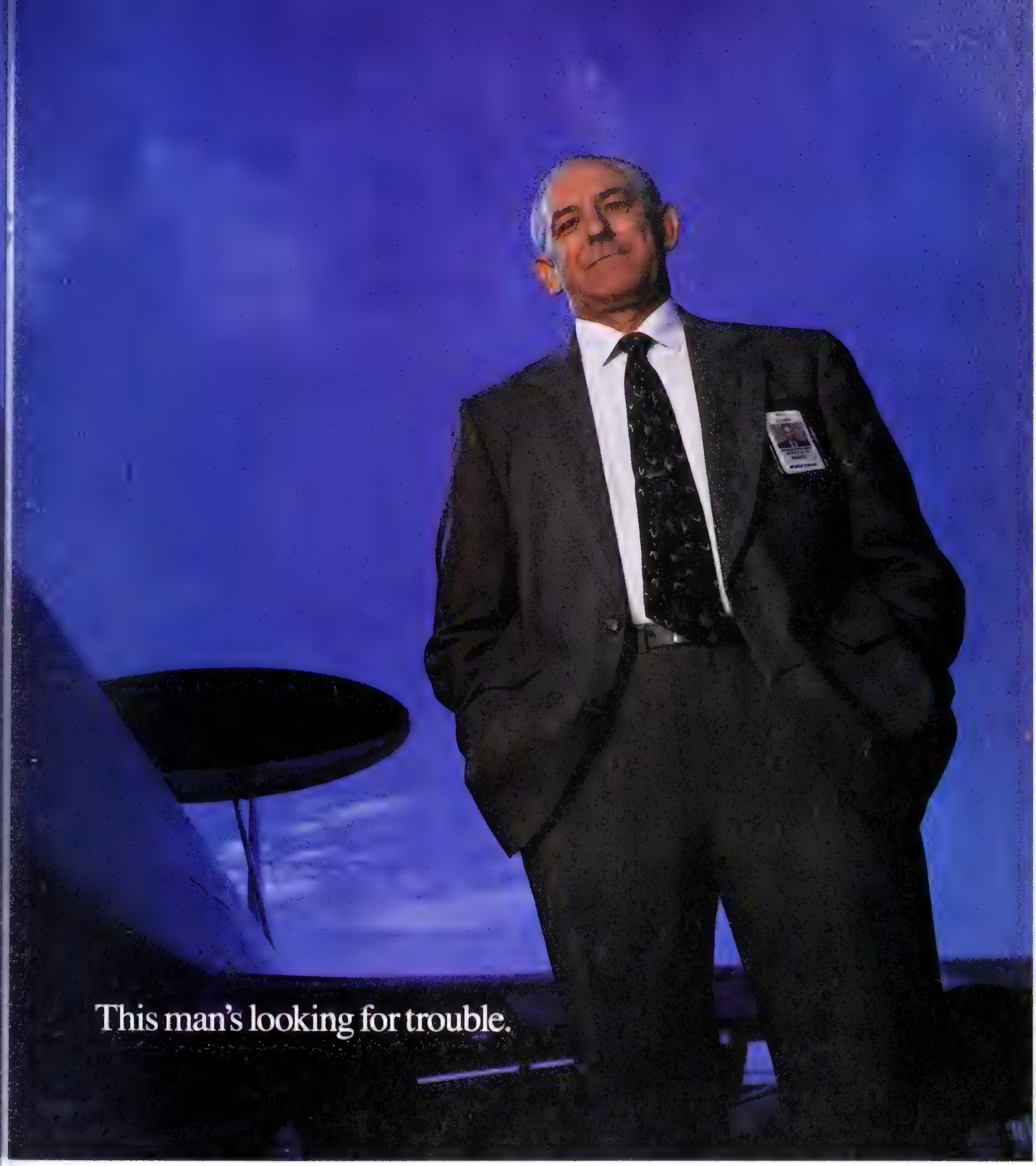
Meet Jerold Mack, manager of Boeing AWACS Support Services.

AWACS stands for Airborne Warn- and Control System, the flying r that has helped cool a dozen hot spots in recent years.

AWACS goes in early so little problems don't become big ones.

So does Mack. He prowls maintenance shops and taxiways around the world, talking with the crews that keep AWACS flying.

Mack's mission is to focus Boein resources on ways to design problen out of the system; ways to build in sin pler, easier maintenance; ways to mal sophisticated AWACS equipment mor reliable, more durable, less costly.



Mack is a dedicated man, a qual-
we look for in each of the more
ın 3,000 people around the world
ıo support Boeing products and
eing customers, no matter where
when.

BOEING

FIRST HAWAIIAN

WALTER ARTHUR DODS JR.

Honolulu, Hawaii 808-525-7000

SALES: *$473 mil.* PROFITS: *$57 mil.*

MARKET VALUE: *$518 mil.*

▶ Born 5/26/41, Honolulu, Hawaii; BBA (business), U. of Hawaii at Manoa, 1968. Career path–marketing; tenure–22 years, CEO 1 year. Compensation: 1989 salary & bonus, $519,000; ownership, 8,000 direct, 211,000 indirect shares. ▶ In banker's paradise. Hawaii economy's booming, thanks to oodles of Japanese money. But he takes nothing for granted: Tight loan scrutiny keeps ratio of nonperformers close to industry's lowest. Rubs elbows with his customers on island's golf courses and often visits Japan to see big developer-borrowers.

FIRST INTERSTATE BANCORP

EDWARD M. CARSON

Los Angeles, Calif. 213-614-3001

SALES: *$6.5 bil.* LOSS: *$152 mil.*

MARKET VALUE: *$1.7 bil.*

▶ Born 11/6/29, Tucson, Ariz.; BA (business admin.), Ariz. State, 1951. Career path–finance/accounting; tenure–39 years, CEO 4 months. Compensation: 1989 salary & bonus, $731,000[1]; ownership, 21,000 shares. ▶ Unassuming boss who lugs around 30-year-old briefcase. Inherits a bank weakened by expansion-crazed era of Joe Pinola. Costs high, profits slumping. Stockholder KKR isn't known for patience; takeover rumors continue to swirl. Potentially bad omen: A tinkerer, he's been building a house in the mountains for the past 40 years.

FIRST OF AMERICA BANK

DANIEL R. SMITH

Kalamazoo, Mich. 616-383-9000

SALES: *$1.3 bil.* PROFITS: *$123 mil.*

MARKET VALUE: *$723 mil.*

▶ Born 3/19/34, Kalamazoo, Mich.; BS (econ.), Western Mich., 1955. Career path–finance/accounting; tenure–35 years, CEO 5 years. Compensation: 1989 salary & bonus, $650,000[1]; ownership, 21,000 shares. ▶ His $13 billion bank is a network of community institutions run from a three-story former YWCA building in downtown Kalamazoo. Buys banks for stock; keeps local management. No loans over $20 million, no shares in syndicated deals–and loss ratios well below industry average. He visits troops often, sometimes answers his own phone.

FIRST SECURITY

SPENCER FOX ECCLES

Salt Lake City, Utah 801-350-5258

SALES: *$607 mil.* PROFITS: *$43 mil.*

MARKET VALUE: *$347 mil.*

▶ Born 8/24/34, Ogden, Utah; BS, U. of Utah, 1956; MBA, Columbia, 1959. Career path–banking, finance; tenure–30 years, CEO 9 years. Compensation: 1989 salary & bonus, $382,000; ownership, 194,000 direct, 334,000 indirect shares.[8] ▶ Scion of prominent family, heads largest bank in western Rockies. Hit hard by regional recession but on the mend: ROA 0.8% now, up from 0.1% in 1986. His goal is 1%. Now expanding via acquisition; just entered Oregon. Sportsman, expert skier. Working to bring 1998 Winter Olympics to Salt Lake City.

FIRST TENNESSEE NATIONAL

RONALD A. TERRY

Memphis, Tenn. 901-523-4444

SALES: *$709 mil.* PROFITS: *$29 mil.*

MARKET VALUE: *$359 mil.*

▶ Born 12/5/30, Memphis, Tenn.; BS (business admin.), Memphis State, 1952. Career path–retail banking; tenure–33 years, CEO 17 years. Compensation: 1989 salary & bonus, $389,000; ownership, 129,000 direct, 45,000 indirect shares. ▶ On weekends, he likes the solitude of fly-fishing. At the office, he prefers teamwork. Just wrapped up three-year cost-cutting program. Eliminated about 10% of the work force. Seems to have put most real estate loan problems behind him; earnings up sharply. Still, managerial, procedural changes are in the works.

FIRST UNION

EDWARD E. CRUTCHFIELD JR.

Charlotte, N. C. 704-374-6565

SALES: *$3.3 bil.* PROFITS: *$256 mil.*

MARKET VALUE: *$1.6 bil.*

▶ Born 7/14/41, Dearborn, Mich.; AB (econ.), Davidson, 1963; MBA, Wharton, 1965. Career path–banking; tenure–25 years, CEO 6 years. Compensation: 1989 salary & bonus, $1,020,000; ownership, 76,000 shares. ▶ Some analysts question his ability to cut costs and boost earnings after his Florida National merger. But he's confident that he can do both–and he doesn't hesitate to visit Wall Street critics and forcefully make his case. Still, no more big deals are in the works near-term. Unwinds on the trout stream at his Virginia cabin.

FIRST VIRGINIA BANKS

ROBERT H. ZALOKAR

Falls Church, Va. 703-241-4000

SALES: *$535 mil.* PROFITS: *$67 mil.*

MARKET VALUE: *$469 mil.*

▶ Born 5/25/27, West Mineral, Kan.; BS (business), U. of Kan., 1950. Career path–finance/accounting; tenure–35 years, CEO 6 years. Compensation: 1989 salary & bonus, $577,000; ownership, 28,000 direct, 1,000 indirect shares. ▶ Conservative consumer banker. Dodging real estate woes, an problems plaguing other banks by sticking to short-term ding in affluent D. C. suburbs. A slump in consumer borrow- ouldn't help, but don't look for him to lower standards to drum up business. Golfer and boating enthusiast.

FIRSTAR

JOHN H. HENDEE JR.

Milwaukee, Wis. 414-765-4321

SALES: *$923 mil.* PROFITS: *$87 mil.*

MARKET VALUE: *$616 mil.*

▶ Born 1/9/26, Milwaukee, Wis.; BA (econ.), Williams, 1949; MBA, U. of Wis., 1956. Career path–finance/accounting; tenure–41 years, CEO 2 years. Compensation: 1989 salary & bonus, $609,000; ownership, 65,000 direct, 3,000 indirect shares. ▶ Will retire next year, but he's not slowing down a bit. Former teller and credit analyst just added $2.5 billion-asset Banks of Iowa, Iowa's largest. Deal will reduce earnings through 1991, but take hold by 1993. Earlier decisions paying off: dumping nationally syndicated lending, some real estate loan offices.

FIRST WACHOVIA

JOHN G. MEDLIN JR.

Winston-Salem, N. C. *919-770-5000*

SALES: *$2.4 bil.* PROFITS: *$269 mil.*

MARKET VALUE: *$2.6 bil.*

▶ BORN 11/23/33, BENSON, N. C.; BS (BUSINESS ADMIN.), U. OF N. C., 1956. CAREER PATH—BANKING; TENURE—31 YEARS, CEO 14 YEARS. COMPENSATION: 1989 SALARY & BONUS, $839,000; OWNERSHIP, 90,000 DIRECT, 4,000 INDIRECT SHARES. ▶ CONSERVATIVE? JUST "DISCIPLINED," HE SAYS—EXPLAINING WHY NONPERFORMING LOANS AS PERCENTAGE OF ASSETS AT HIS SUPERREGIONAL ARE A FRACTION OF THOSE AT MAJOR COMPETITORS FIRST UNION AND NCNB. FIVE YEARS AFTER FIRST BIG ACQUISITION, FIRST ATLANTA, HE'S STILL CAUTIOUS, BIDING HIS TIME FOR A DEAL HE THINKS MAKES SENSE AND IS PRICED RIGHT. ALSO UNHAPPY AT WHAT HE BELIEVES IS MICROMANAGING OF BANKING SYSTEM BY FEDERAL REGULATORS. MAY BE OVERSTATING IT, CONSIDERING S&L DEBACLE. A VORACIOUS READER, HE ENJOYS BUSINESS BOOKS, A BIT OF TENNIS, VACATIONS AT HIS SEASIDE COTTAGE.

FLEET/NORSTAR FINANCIAL GROUP

TERRENCE MURRAY

Providence, R. I. *401-278-5800*

SALES: *$3.7 bil.* PROFITS: *$371 mil.*

MARKET VALUE: *$1.6 bil.*

▶ Born 7/11/39, Woonsocket, R. I.; BA (English), Harvard, 1962. Career path–finance/accounting; tenure–28 years, CEO 2 years. Compensation: 1989 salary & bonus, $1,327,000; ownership, 111,000 direct, 30,000 indirect shares. ▶ His collection of Presidential letters boasts one signed by Washington. Not so enamored of feds at the moment: Bank took first quarterly loss in years after exam by regulators, who also foiled his buy of Bank of New England's Connecticut bank. Bad as things are, real estate slump has hurt others worse.

FLEETWOOD ENTERPRISES

JOHN C. CREAN

Riverside, Calif. *714-351-3500*

SALES: *$1.5 bil.* PROFITS: *$55 mil.*

MARKET VALUE: *$435 mil.*

▶ Born 7/4/25, Bowden, N. D. Career path–product design; tenure–40 years, CEO 40 years. Compensation: 1989 salary & bonus, $633,000; ownership, 4,004,000 shares. ▶ His company ranks first in cyclical RV market. It's already stalled at bottom of cycle, and rising fuel costs could delay upturn, may make things worse. But he's seen it all before, which may be why he's expanding now. Bought Coleman's folding trailer division, entered truck-camper market. Bright spot: Mobile home sales–helped by high apartment rents, few housing starts.

FLEMING

E. DEAN WERRIES

Oklahoma City, Okla. *405-840-7200*

SALES: *$12 bil.* PROFITS: *$80 mil.*

MARKET VALUE: *$1 bil.*

▶ Born 5/8/29, Tescott, Kan.; BS (business), U. of Kan., 1952. Career path–merchandising/marketing, operations; tenure–36 years, CEO 2 years. Compensation: 1989 salary & bonus, $545,000; ownership, 57,000 direct, 19,000 indirect shares. ▶ Once a grocery bagger, he now runs the nation's largest wholesale food distributor. Customers include store groups such as IGA, Piggly Wiggly, Thriftway. Active in industry trade association, ambitious: Via acquisitions and broader lines–including more perishables–he wants earnings to grow 12% annually.

FLIGHTSAFETY INTERNATIONAL

ALBERT LEE UELTSCHI

Flushing, N. Y. *718-565-4100*

SALES: *$222 mil.* PROFITS: *$66 mil.*

MARKET VALUE: *$1.9 bil.*

▶ Born 5/15/17, Frankfort, Ky. Career path–pilot; tenure–39 years, CEO 39 years. Compensation: 1989 salary & bonus, $299,000; ownership, 9,880,000 shares.[7] ▶ One-time stunt pilot, barnstormer, and personal pilot to PanAm founder Juan Trippe, he's built wildly profitable company with high-tech simulators that can train pilots to fly anything from Cessnas to 747-400s. He's also diversifying into training tanker pilots. As airlines' pilots and planes age, demand for his service seems likely to stay strong. Don't expect him to retire anytime soon.

PHOTOGRAPH: CHARLES GUPTON

FLORIDA EAST COAST INDUSTRIES

WINFRED LAMOTTE THORNTON

Jacksonville, Fla. *904-396-6600*

SALES: *$168 mil.* PROFITS: *$40 mil.*

MARKET VALUE: *$431 mil.*

▶ Born 7/9/28, Winston-Salem, N. C.; BS (civil eng.), Va. Mil. Inst., 1950. Career path–engineering/technical, executive; tenure–30 years, CEO 8 years. Compensation: 1989 salary & bonus, $135,000[2]; ownership, 5,000 shares.[8] ▶ Real estate side continues to grow, with two Jacksonville buildings completed last year, plus first phase of Miami industrial park. But Florida commercial real estate overbuilt. Railroad picked up business from shrinking CSX, but economy pinches. Devout churchgoer keeps to himself–and some say he needs to raise profile.

FLORIDA PROGRESS

JACK B. CRITCHFIELD

St. Petersburg, Fla. *813-894-8411*

SALES: *$2.1 bil.* PROFITS: *$204 mil.*

MARKET VALUE: *$1.8 bil.*

▶ Born 5/23/33, Rockwood, Pa.; BS (history & econ.), Slippery Rock State, 1955; MA (psy. couns., 1960), EdD (admin., 1967), U. of Pittsburgh. Career path–management; tenure–7 years, CEO 8 months. Compensation: 1989 salary & bonus, $367,000; ownership, 2,000 shares.[7] ▶ High school history teacher turned utility executive. Well, more power to him. Must streamline company, dumping peripheral units, squeezing more out of bigger, more promising ones. Recently sold 3,200 acres of citrus groves, expects to sell building products unit.

FLOWERS INDUSTRIES

AMOS RYALS MCMULLIAN

Thomasville, Ga. *912-226-9110*

SALES: *$783 mil.* PROFITS: *$30 mil.*

MARKET VALUE: *$565 mil.*

▶ Born 8/28/37, Jackson County, Fla.; BS (business), Fla. State, 1962. Career path–finance/accounting; tenure–28 years, CEO 9 years. Compensation: 1989 salary & bonus, $292,000; ownership, 243,000 direct, 3,000 indirect shares. ▶ Baking star's built this chain through aggressive acquisitions. Wholesale outlets turn out bread, rolls sold as regional or private brands. Settled a long-running FTC dispute last year by selling off two bakeries. Hopes new deal with Winn Dixie will help offset pressure of rising ingredient costs. Active Episcopal layman.

FLUOR

LESLIE G. MCCRAW

Irvine, Calif. *714-975-2000*

SALES: *$6.3 bil.* PROFITS: *$108 mil.*

MARKET VALUE: *$2.9 bil.*

▶ Born 11/3/34, Sandy Springs, S. C.; BS (civil eng.), Clemson, 1956. Career path–engineering/technical, construction; tenure–4 years, CEO 9 months. Compensation: 1989 salary & bonus, $748,000; ownership, 13,000 shares. ▶ Succeeded David Tappan in January–perfect timing. Once troubled engineering giant poised to benefit from infrastructure, environmental cleanup contracts, new oil installations. Little Middle East exposure. He helped set up key East German partnership. Massey Coal subsidiary has valuable low-sulphur reserves.

FMC

ROBERT H. MALOTT

Chicago, Ill. *312-861-6000*

SALES: *$3.4 bil.* PROFITS: *$157 mil.*

MARKET VALUE: *$1.2 bil.*

▶ Born 10/6/26, Boston, Mass.; AB, U. of Kan., 1948; MBA, Harvard, 1950. Career path–administration; tenure–38 years, CEO 18 years. Compensation: 1989 salary & bonus, $1,090,000; ownership, 189,000 direct, 72,000 indirect shares. ▶ Due to retire next year, but he's not resting. Softening military sales have him looking elsewhere for muscle. Has $500 million in borrowing capacity for acquisitions. Boosted capital spending 51% last year, expanded industrial chemical capacity in Thailand, Spain. Aggressive in gold mining. For fun: rafting, camping.

FMC GOLD

ROBERT N. BURT

Chicago, Ill. *312-861-6000*

SALES: *$152 mil.* PROFITS: *$49 mil.*

MARKET VALUE: *$696 mil.*

▶ Born 5/24/37, Lakewood, Ohio; BS (chem. eng.), Princeton, 1959; MBA (econ., marketing), Harvard, 1964. Career path–planning, mgmt.; tenure–1 year, CEO 1 year. Compensation: 1989 salary & bonus, NA[2]; ownership, 1,000 shares. ▶ He wears two hats: head of this spin-off and president of parent FMC. Delegates most operations here to Nevada-based managers; arrangement works well. Company is nation's lowest-cost gold producer, helped by recent price rise. Just added to reserves by buying Western properties from Burlington Resources.

FOOD LION

TOM E. SMITH

Salisbury, N. C. *704-633-8250*

SALES: *$4.7 bil.* PROFITS: *$140 mil.*

MARKET VALUE: *$4.3 bil.*

▶ Born 5/2/41, China Grove, N. C.; AB (business), Catawba, 1964. Career path–retailing; tenure–20 years, CEO 5 years. Compensation: 1989 salary & bonus, $514,000; ownership, 1,052,000 direct, 29,000 indirect shares. ▶ His Southeastern supermarkets sport some of the industry's highest margins. How? TV ads–with him as spokesman–tout "extra low prices," and he pinches every penny. But maybe too hard: Faces nasty lawsuit backed by union alleging he dismissed workers just before they qualified for company's profit-sharing plan.

FORD MOTOR

HAROLD A. POLING

Dearborn, Mich. *313-322-3000*

SALES: *$96.1 bil.* PROFITS: *$3.8 bil.*

MARKET VALUE: *$16.5 bil.*

▶ Born 10/14/25, Troy, Mich.; BA (econ., business admin.), Monmouth, 1949; MBA (accounting), Ind., 1951. Career path–finance/accounting; tenure–40 years, CEO 7 months. Compensation: 1989 salary & bonus, $2,149,000[1]; ownership, 163,000 direct, 3,000 indirect shares. ▶ "Red" has a hard act to follow in Don Petersen. Laconic and steady, he'll need his cost-cutting skills. Car sales weakening, balance sheet leveraged up by Jaguar acquisition. Golf lover's scorecard isn't all bogeys: Won points with Ford family by promoting some of the clan.

FOOTNOTES APPEAR ON PAGE 292

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FOREST LABORATORIES

HOWARD SOLOMON

New York, N. Y. *212-421-7850*

SALES: *$143 mil.* PROFITS: *$30 mil.*

MARKET VALUE: *$802 mil.*

▶ Born 8/12/27, New York, N. Y.; BS (social sciences), City Coll. of N. Y., 1949; LLB, Yale Law, 1952. Career path–legal; tenure–15 years, CEO 14 years. Compensation: 1989 salary & bonus, $340,000; ownership, 320,000 shares. ▶ Once primarily into generics, but now that's only 30% of sales. Gets most new products the cheap way–licensing U. S. rights from foreign manufacturers. Potential blockbuster is Micturol (for incontinence), already popular abroad. Kudos: He emerged unscathed from crackdown on generic manufacturers. Arts patron.

FOSTER WHEELER

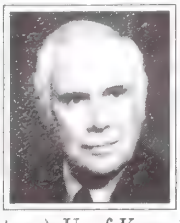
LOUIS E. AZZATO

Clinton, N. J. *201-730-4000*

SALES: *$1.2 bil.* PROFITS: *$34 mil.*

MARKET VALUE: *$730 mil.*

▶ Born 10/8/30, New York, N. Y.; BS (chem. eng.), City Coll. of N. Y., 1952. Career path–engineering/technical; tenure–38 years, CEO 9 years. Compensation: 1989 salary & bonus, $445,000; ownership, 42,000 shares. ▶ Business is awful in most of the construction industry–but not for him. Company, which specializes in big industrial projects, is performing impressively. New orders running well-above 1989 levels, with over half of the business in Europe. Restructuring, asset sales about done, so he can work to to increase revenues. Into fitness–and opera.



FOURTH FINANCIAL

JORDAN L. HAINES

Wichita, Kan. *316-261-4444*

SALES: *$304 mil.* PROFITS: *$34 mil.*

MARKET VALUE: *$399 mil.*

▶ Born 5/17/27, Sabetha, Kan.; AB (Eng., history), U. of Kan., 1949; LLB, U. of Kan. Law, 1957. Career path–comm. banking; tenure–28 years, CEO 8 years. Compensation: 1989 salary & bonus, $445,000; ownership, 60,000 direct, 27,000 indirect shares. ▶ I don't think we're (just) in Kansas anymore. Bank chief moving into consumer credit in Oklahoma, Missouri, Nebraska. Seeks out-of-state banks but lawmakers won't allow it. In-state, he's bought five S&Ls, is merging three Kansas City banks, shopping for others. Flat-out loves golf.

FPL GROUP

JAMES L. BROADHEAD

North Palm Beach, Fla. *407-694-6300*

SALES: *$6.2 bil.* PROFITS: *$454 mil.*

MARKET VALUE: *$3.7 bil.*

▶ Born 11/28/35, New Rochelle, N. Y.; BME, Cornell, 1958; LLB, Columbia Law, 1963. Career path–general management; tenure–2 years, CEO 2 years. Compensation: 1989 salary & bonus, $793,000; ownership, 1,000 shares. ▶ A shake-'em-up guy. Outsider trying to re-direct this diversified utility. Restructured top management, wants to sell Colonial Penn insurance subsidiary. Intends to spend $7 billion to boost capacity–and none too soon: A state-wide Christmas freeze led to power blackouts and created embarrassing PR headache.

FRANKLIN RESOURCES

CHARLES B. JOHNSON

San Mateo, Calif. *415-570-3000*

SALES: *$253 mil.* PROFITS: *$79 mil.*

MARKET VALUE: *$1 bil.*

▶ Born 1/6/33, Montclair, N. J.; BA (econ., political sci.), Yale, 1954. Career path–finance/accounting; tenure–33 years, CEO 19 years. Compensation: 1989 salary & bonus, $452,000; ownership, 7,221,000 direct, 852,000 indirect shares. ▶ Facing slower growth in maturing mutual funds, but he's got strong brand name, size to weather consolidation. Aloof from current price wars among direct sellers, since he sells through brokers. Going for foreign investors, with office in Taiwan and one planned in London. Plays mean game of handball, runs.

FREEPORT-McMORAN

JAMES R. MOFFETT

New Orleans, La. *504-582-4000*

SALES: *$2 bil.* PROFITS: *$150 mil.*

MARKET VALUE: *$1.9 bil.*

▶ Born 8/16/38, Houma, La.; BS (geology), U. of Tex., 1961; MS (geology), Tulane, 1963. Career path–engineering/technical; tenure–23 years, CEO 6 years. Compensation: 1989 salary & bonus, $1,350,000; ownership, 665,000 direct, 135,000 indirect shares. ▶ Colorful catalyst behind natural resources company and its spin-offs. Shuffling the deck, as usual: Selling off $1.5 billion in geothermal wells, gathering cash to develop major sulfur, copper, gold discoveries. ("Selling peanuts to enjoy the watermelon," he explains.) A force in local politics.

FREEPORT-McMORAN COPPER

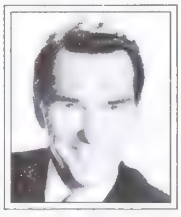
MILTON HAWKINS WARD

New Orleans, La. *504-582-1640*

SALES: *$368 mil.* PROFITS: *$99 mil.*

MARKET VALUE: *$1.4 bil.*

▶ Born 8/1/32, Bessemer, Ala.; BS (mining eng., 1955), MS (1981), U. of Ala.; MBA, U. of N. Mex., 1974. Career path–engineering/technical, mgmt.; tenure–16 years, 2 years. Compensation: 1989 salary & bonus, $374,000; own- NA.[10] ▶ Maintains a locally low profile behind flashy rt-McMoRan Chairman Jim Bob Moffett. Considered a anager of Freeport-McMoRan's cash cow company. Pre- er development of world-class mine in Indonesia, where announced huge increase in proven ore reserves.



FRUIT OF THE LOOM

WILLIAM FARLEY

Chicago, Ill. *312-876-7000*

SALES: *$1.3 bil.* PROFITS: *$72 mil.*

MARKET VALUE: *$717 mil.*

▶ Born 10/10/42, Pawtucket, R. I.; AB (liberal arts), Bowdoin, 1964; JD, Boston Coll. Law, 1969. Career path–finance/accounting; tenure–5 years, CEO 5 years. Compensation: 1989 salary & bonus, NA[2]; ownership, 783,000 direct, 12,000,000 indirect shares. ▶ Fitness fanatic works overtime on his financial empire. Ran out of money trying to buy West-Point Pepperell, but still controls debt-heavy apparel company (which missed bond payment deadline). Selling shares, assets to raise capital. Dealmaker Leon Black bought some Fruit, may buy more soon.

THE CORPORATE ELITE

FUND AMERICAN

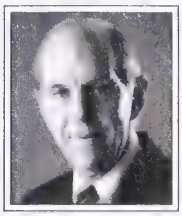
JOHN J. BYRNE

Greenwich, Conn. *203-625-5300*

SALES: *$3.5 bil.* PROFITS: *$73 mil.*

MARKET VALUE: *$1.6 bil.*

▶ Born 7/11/32, Passaic, N. J.; BS (mathematics), Rutgers, 1954; MS (mathematics), U. of Mich., 1959. Career path–finance/accounting, actuarial; tenure–5 years, CEO 5 years. Compensation: 1989 salary & bonus, $850,000; ownership, 100,000 shares. ▶ Selling Fireman's Fund for $3.3 billion. Plans to liquidate this holding company "like an ice cube" over next five years. Meanwhile, he must get insurance sale approved by 13 state regulators, dispose of troubled mortgage business. Formerly at Travelers, GEICO, he's an eclectic reader, erratic golfer.



FUQUA INDUSTRIES

LAWRENCE PAINE KLAMON

Atlanta, Ga. *404-658-9000*

SALES: *$926 mil.* PROFITS: *$7 mil.*

MARKET VALUE: *$324 mil.*

▶ Born 3/17/37, St. Louis, Mo.; AB (pol. sci., econ.), Washington U. (Mo.), 1958; JD, Yale Law, 1961. Career path–legal; tenure–23 years, CEO 2 years. Compensation: 1989 salary & bonus, $678,000; ownership, 78,000 shares. ▶ Easygoing successor to legendary J. B. Fuqua. Ditched troubled thrift and American Seating. With stock off some 33%, repurchased 3.5 million shares, helping send second-quarter EPS up 220%. Now, picture's looking better in photo-finishing, sporting goods, Snapper mowers. With $240 million in cash, he's feeling acquisitive.

GANNETT

JOHN J. CURLEY

Arlington, Va. *703-284-6000*

SALES: *$3.5 bil.* PROFITS: *$398 mil.*

MARKET VALUE: *$5.5 bil.*

▶ Born 12/31/38, Easton, Pa.; BA (political sci., English), Dickinson, 1960; MS (journalism), Columbia, 1963. Career path–journalism; tenure–21 years, CEO 4 years. Compensation: 1989 salary & bonus, $1,281,000; ownership, 96,000 direct, 2,000 indirect shares. ▶ Avid runner worked fat off his media company, slashing headquarters staff, cutting managers, slicing fancy trappings. Good thing: Advertising slump recently helped snap decade-long string of earnings gains. New worry: charitable Gannett Foundation may dump its 10% stake.

THE GAP

DONALD GEORGE FISHER

San Francisco, Calif. *415-952-4400*

SALES: *$1.6 bil.* PROFITS: *$98 mil.*

MARKET VALUE: *$1.9 bil.*

▶ Born 9/3/28, San Francisco, Calif.; BS (business), U. of Calif. at Berkeley, 1950. Career path–real estate; tenure–21 years, CEO 21 years. Compensation: 1989 salary & bonus, $1,746,000; ownership, 9,307,000 direct, 5,286,000 indirect shares. ▶ Founded clothing chain with his wife. Company humming despite weak retail market. Adding 165 stores, hiking capital spending. Banana Republic unit still mending–but now sells more than just pseudo-safariwear. One blotch: shuttered upscale clothes experiment, Hemisphere, took $10.8 million writedown.

GATX

JAMES J. GLASSER

Chicago, Ill. *312-621-6200*

SALES: *$702 mil.* PROFITS: *$66 mil.*

MARKET VALUE: *$422 mil.*

▶ Born 6/5/34, Chicago, Ill.; AB (history), Yale, 1955; JD, Harvard Law, 1958. Career path–legal, general management; tenure–29 years, CEO 12 years. Compensation: 1989 salary & bonus, $817,000; ownership, 103,000 direct, 2,000 indirect shares. ▶ Rust Belt transformation artist. Railcar fleet is running at 95% capacity, so he can spend time diversifying into new financial services. Recently renamed his leasing subsidiary GATX Capital, and it's into lease-portfolio management and real estate finance. Off hours, he's a dog breeder (Bedlingtons).

GEICO

WILLIAM BURTON SNYDER

Washington, D. C. *301-986-3000*

SALES: *$1.9 bil.* PROFITS: *$213 mil.*

MARKET VALUE: *$2.1 bil.*

▶ Born 7/9/29, Clarksburg, W. Va.; BS (accounting), Tex. Tech, 1955. Career path–merchandising/marketing; tenure–13 years, CEO 5 years. Compensation: 1989 salary & bonus, $700,000; ownership, 53,000 direct, 2,000 indirect shares. ▶ Tireless worker has two big challenges. One's sustaining enviable earnings record at once-insolvent auto insurer. Other's keeping Warren Buffett happy. Investor holds 44% stake, bought for $46 million, now worth $1 billion. A Wall St. rumor has company using big cash wad to buy Buffett out. Or the other way round.

GENCORP

A. WILLIAM REYNOLDS

Fairlawn, Ohio *216-869-4200*

SALES: *$1.9 bil.* PROFITS: *$8 mil.*

MARKET VALUE: *$297 mil.*

▶ Born 6/21/33, Columbus, Ohio; AB (econ.), Harvard, 1955; MBA (econ.), Stanford, 1957. Career path–management; tenure–6 years, CEO 5 years. Compensation: 1989 salary & bonus, $795,000; ownership, 41,000 shares. ▶ His primary markets–automotive, aerospace–taking a beating. Profits are weak. Not all is bleak, though: improving earnings from vehicle sealing products. He's sole supplier of sealing materials on new Ford Explorer. Making headway on beefing up balance sheet, but Wall Street isn't impressed. His style: studied, serious.

GENENTECH

G. KIRK RAAB

So. San Francisco, Calif. *415-266-1000*

SALES: *$383 mil.* PROFITS: *$44 mil.*

MARKET VALUE: *$2.5 bil.*

▶ Born 9/27/35, New York, N. Y.; AB (fine arts), Colgate, 1959. Career path–merchandising/marketing; tenure–6 years, CEO 8 months. Compensation: 1989 salary & bonus, $560,000; ownership, 23,000 shares. ▶ He moved from Abbott Labs to replace founder Robert Swanson, who becomes chairman. As 60%-owned unit of Swiss giant Roche, firm won't have to scrabble for funding for promising research in cystic fibrosis, infections, other ills. His challenge: keeping his maverick scientists free of meddling from Basel. New father of twins.

GENERAL CINEMA

RICHARD ALAN SMITH

Chestnut Hill, Mass. *617-232-8200*

SALES: *$1.9 bil.* PROFITS: *$106 mil.*

MARKET VALUE: *$1.2 bil.*

▶ Born 11/1/24, Boston, Mass.; BS, Harvard, 1946. Career path–management; tenure–43 years, CEO 29 years. Compensation: 1989 salary & bonus, $1,051,000; ownership, 158,000 shares.[8] ▶ No Hollywood airs for him–he shuns publicity, works out of nondescript office building next to a movie theater. Still sitting on $1.4 billion in cash after sale of bottling business. Investment in new movie theaters has lowered the curtain on operating profits. Retail units, including Neiman-Marcus, Bergdorf Goodman, making gains despite sluggish retail market.

GENERAL DYNAMICS

STANLEY C. PACE

St. Louis, Mo. *314-889-8200*

SALES: *$10 bil.* PROFITS: *$293 mil.*

MARKET VALUE: *$1 bil.*

▶ Born 9/14/21, Burkesville, Ky.; BS (eng.), U. S. Mil. Acad., 1943; MS (aero. eng.), Calif. Inst. of Tech., 1949. Career path–engineering/technical; tenure–5 years, CEO 5 years. Compensation: 1989 salary & bonus, $1,199,000; ownership, 32,000 shares. ▶ Commands nation's No. 2–and least-diversified–defense contractor. New Pentagon policies force him to spend heavily to win contracts, take writeoffs for overruns ($500 million for second quarter). Tank production ends soon, so he's expanding in electronics. Successor on deck: Ex-astronaut Bill Anders.

GENERAL ELECTRIC

JOHN FRANCIS WELCH

Fairfield, Conn. *203-373-2211*

SALES: *$53.9 bil.* PROFITS: *$3.9 bil.*

MARKET VALUE: *$55.4 bil.*

▶ Born 11/19/35, Peabody, Mass.; BS (chem. eng.), U. of Mass., 1957; MS (1958), PhD (chem. eng., 1960), U. of Ill. Career path–engineering/technical; tenure–30 years, CEO 9 years. Compensation: 1989 salary & bonus, $2,649,000; ownership, 173,000 direct, 38,000 indirect shares. ▶ Innovative boss transformed giant's culture, refocused products. Hipped on productivity, production processes, employee initiative. Problems: Financial-services, other arms can't match past growth, so he's after "hidden" opportunities in Hungary, India, Mexico.

GENERAL MILLS

H. BREWSTER ATWATER JR.

Minneapolis, Minn. *612-540-2311*

SALES: *$6.4 bil.* PROFITS: *$374 mil.*

MARKET VALUE: *$7.1 bil.*

▶ Born 4/19/31, Minneapolis, Minn.; AB, Princeton, 1952; MBA, Stanford, 1954. Career path–merchandising/marketing; tenure–32 years, CEO 9 years. Compensation: 1989 salary & bonus, $1,431,000; ownership, 120,000 shares. ▶ Hard to imagine how "Bruce" will cook up tastier year than last, with 18% earnings gain. But he might: Big G cereals still gaining against Kellogg. Adding 30% to production capacity, where earlier limits forced promotion cutbacks. Adding Chinese to restaurant group. Modern-art fan, speaks against censorship.

GENERAL MOTORS

ROBERT C. STEMPEL

Detroit, Mich. *313-556-5000*

SALES: *$125 bil.* PROFITS: *$4.2 bil.*

MARKET VALUE: *$24 bil.*

▶ Born 7/15/33, Trenton, N. J.; BS (mech. eng.), Worcester Poly. Inst., 1955; MBA, Mich. State, 1970. Career path–engineering/technical; tenure–33 years, CEO 2 months. Compensation: 1989 salary & bonus, $1,775,000; ownership, 45,000 direct, 4,000 indirect shares. ▶ Imposing presence will be less public than predecessor. Discourages personality profiles, defers often to aides. Hopes revamped product will lure buyers back. Must cut costs, but just signed costly contract with UAW. A surf-casting fisherman, not likely to say where he catches 'em.

GENERAL PUBLIC UTILITIES

STANDLEY H. HOCH

Parsippany, N. J. *201-263-6500*

SALES: *$2.9 bil.* PROFITS: *$312 mil.*

MARKET VALUE: *$2.2 bil.*

▶ Born 2/17/33, Canonsburg, Pa.; BA (econ.), Oberlin, 1954. Career path–finance/accounting; tenure–1 year, CEO 1 year. Compensation: 1989 salary & bonus, $513,000[5]; ownership, 1,000 shares. ▶ Former General Dynamics man has had a lot to savor after first taste of the business. Seven months of streamlining, work force trimming, paid off in record earnings. Three Mile Island disaster forces him to buy power from elsewhere. Could spell trouble if demand outstrips supply, but new 20-year pact with DQE goes a long way toward solving problem.

GENERAL RE

RONALD E. FERGUSON

Stamford, Conn. *203-328-5000*

SALES: *$2.8 bil.* PROFITS: *$599 mil.*

MARKET VALUE: *$6.5 bil.*

▶ Born 1/16/42, Chicago, Ill.; BA (mathemat- s, econ.), Blackburn, 1963; MS (actuarial sciences), U. of Mich., 65. Career path–actuarial; tenure–21 years, CEO 4 years. Com- ation: 1989 salary & bonus, $1,201,000[1]; ownership, 20,000 . ▶ Long-distance runner whom some colleagues dub "a sive educator," he enjoys explaining company's complex - which he understands well enough to back away from rice wars. Expects boost from tougher regs that force urers–his customers–to use licensed reinsurers.

GENERAL SIGNAL

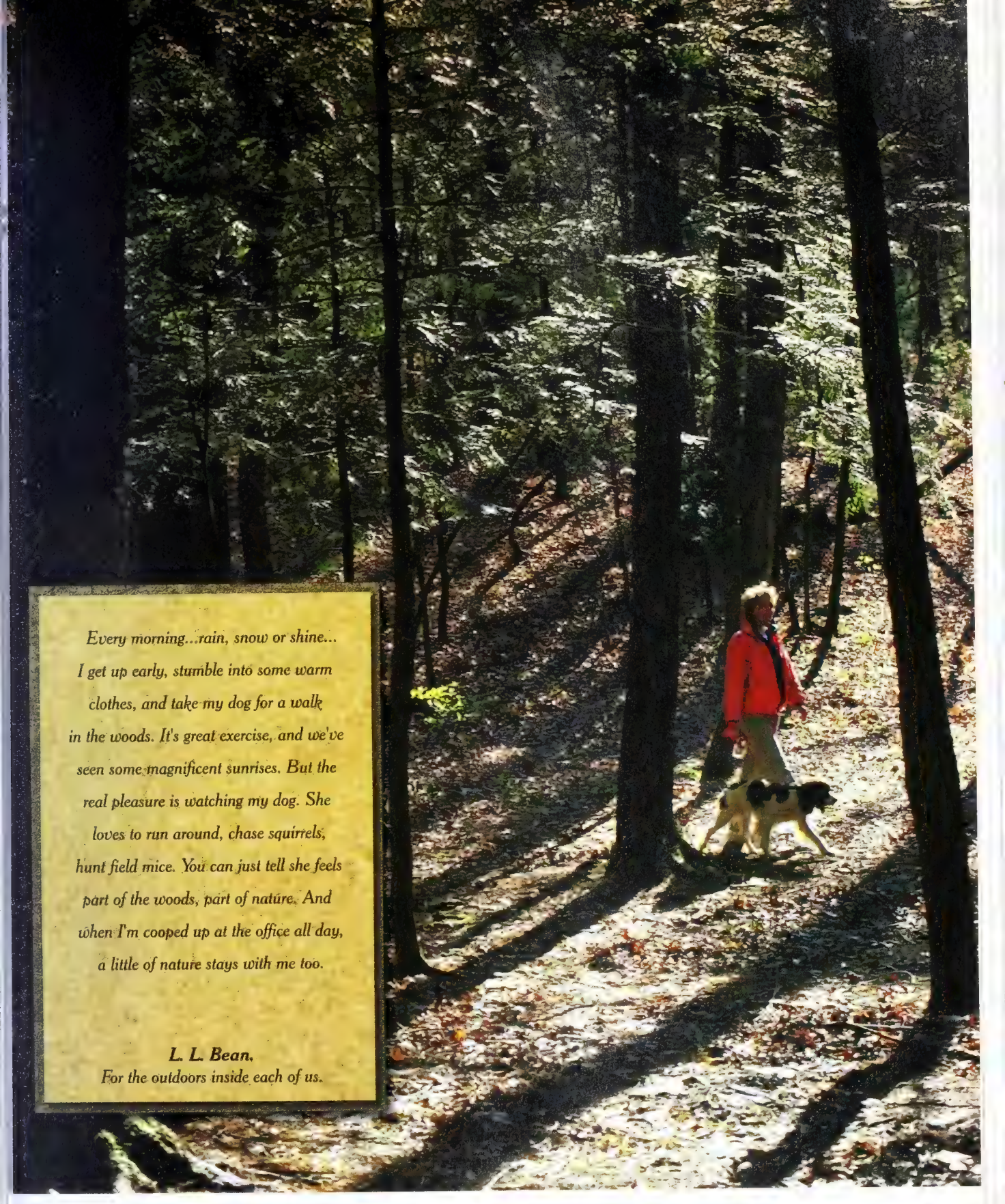
EDMUND M. CARPENTER

Stamford, Conn. *203-357-8800*

SALES: *$1.9 bil.* PROFITS: *$78 mil.*

MARKET VALUE: *$858 mil.*

▶ Born 12/28/41, Toledo, Ohio; BS (ind. eng., 1963), MBA (1964), U. of Mich. Career path–engineering/technical; tenure–2 years, CEO 2 years. Compensation: 1989 salary & bonus, $1,046,000; ownership, 15,000 shares. ▶ Housecleaner stormed into this fading maker of electronic and industrial gear, turned it inside out, shook briskly. Streamlined remains have good numbers, and what still are problems (semiconductors, telecommunications) may be patched up and put on the block. Exhilarating, but it's played havoc with his 10 handicap, now up to 18.



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GENETICS INSTITUTE

GABRIEL SCHMERGEL

Cambridge, Mass. *617-876-1170*

SALES: *$44 mil.* LOSS: *$29 mil.*

MARKET VALUE: *$416 mil.*

▶ Born 5/14/40, Budapest, Hungary; BSME, RPI, 1962; MBA, Harvard, 1967. Career path–general mgmt.; tenure–9 years, CEO 9 years. Compensation: 1989 salary & bonus, $282,000; ownership, 91,000 direct, 7,000 indirect shares. ▶ His company will earn first revenues this year from product sales instead of licensing fees. Impressive anti-anemia drug, dubbed EPO, stimulates formation of red blood cells. It's on sale now in Japan, Europe. FDA approval and messy patent fight with Amgen are delaying U. S. entry. Rides, swims, plays chess.

GENUINE PARTS

LARRY L. PRINCE

Atlanta, Ga. *404-953-1700*

SALES: *$3.2 bil.* PROFITS: *$199 mil.*

MARKET VALUE: *$2.8 bil.*

▶ Born 10/4/38, Dyersburg, Tenn.; attended Memphis State. Career path–merchandising/marketing, distribution, operations; tenure–32 years, CEO 1 year. Compensation: 1989 salary & bonus, $522,000; ownership, 31,000 shares. ▶ Boss of nation's biggest independent distributor of auto replacement parts, which outperforms the industry even when business is soft. Serves more than 6,000 outlets with advanced computerized inventory-control system. Pushing for bigger share of parts for foreign cars. A man of parts, he's chairman of the Atlanta Fed.

GENZYME

HENRI A. TERMEER

Cambridge, Mass. *617-252-7500*

SALES: *$33 mil.* LOSS: *$13 mil.*

MARKET VALUE: *$327 mil.*

▶ Born 2/28/46, Tilburg, Netherlands; attended U. of Rotterdam, U. of Va. Career path–general mgmt.; tenure–7 years, CEO 5 years. Compensation: 1989 salary & bonus, $312,000; ownership, 80,000 shares. ▶ Classical music maven who plays a different tune. Most biotech startups concentrate on R&D, farm out manufacturing, marketing. But he wants to do it all. Strategy has been costly so far but could pay off big. Expects FDA approval soon for major new drug. Into Italian baroque music, he recently wired whole house for sound.

GEORGIA-PACIFIC

THOMAS MARSHALL HAHN JR.

Atlanta, Ga. *404-521-4000*

SALES: *$10.2 bil.* PROFITS: *$661 mil.*

MARKET VALUE: *$3.5 bil.*

▶ Born 12/2/26, Lexington, Ky.; BS (physics), U. of Ky., 1945; PhD (physics), MIT, 1950. Career path–engineering/technical; tenure–16 years, CEO 7 years. Compensation: 1989 salary & bonus, $1,700,000; ownership, 124,000 direct, 20,000 indirect shares. ▶ His $4.5 billion hostile takeover of Great Northern Nekoosa makes him the industry giant and lowest-cost producer of several major lines. Next: Sell off $1 billion in assets to pare debt and implement cost savings–which could reach $160 million annually. So there's little time to unwind on his Virginia farm.

GERBER PRODUCTS

ALFRED A. PIERGALLINI

Fremont, Mich. *616-928-2000*

SALES: *$1.1 bil.* PROFITS: *$95 mil.*

MARKET VALUE: *$1.9 bil.*

▶ Born 8/1/46, Easton, Pa.; BA (econ.), Lafayette, 1968; MBA (finance), U. of Chicago, 1970. Career path–merchandising/marketing; tenure–1 year, CEO 9 months. Compensation: 1989 salary & bonus, $575,000; ownership, 22,000 shares. ▶ On vacation eight months after joining company when predecessor David Johnson announced departure for top spot at Campbell's. He's lower-key, but continuing efforts to streamline baby-food, clothing maker. Wants more cuddly image than Johnson: Likes photos in shirtsleeves with babies in his arms.

GIANT FOOD

ISRAEL COHEN

Landover, Md. *301-341-4100*

SALES: *$3.2 bil.* PROFITS: *$108 mil.*

MARKET VALUE: *$1.5 bil.*

▶ Born 11/21/12, Jerusalem, Palestine. Career path–food retailing; tenure–54 years, CEO 13 years. Compensation: 1989 salary & bonus, $1,213,000; ownership, 2,856,000 shares. ▶ Started at 12 stocking shelves in dad's store, but this is no mom-and-pop grocer. Margins are giant thanks to integration: Builds own stores, performs own locksmithing and landscaping. Automated complex produces milk, soda, ice cream. Sales slowing, though, so he's building huge, fancy stores to lure more yuppies from the 'burbs. Never wears a watch–and he's never late.

GIBSON GREETINGS

BENJAMIN J. SOTTILE

Cincinnati, Ohio *513-841-6600*

SALES: *$465 mil.* PROFITS: *$42 mil.*

MARKET VALUE: *$338 mil.*

▶ Born 12/11/37, Brooklyn, N. Y.; BS (eng., naval science), U. S. Naval Acad., 1961. Career path–merchandising/marketing; tenure–4 years, CEO 4 years. Compensation: 1989 salary & bonus, $1,017,000; ownership, NA.[8] ▶ The check wasn't in the mail–so he wrote off $5 million in receivables from bankrupt Ames Department Stores. Still, his company's attracted some analysts who like strong balance sheet, better-than-average profits. Acquired gift-wrap maker, investing in new plant. A rousing speaker, he gets message across without sending a card.

GILLETTE

COLMAN M. MOCKLER JR.

Boston, Mass. *617-421-7000*

SALES: *$3.8 bil.* PROFITS: *$285 mil.*

MARKET VALUE: *$5.7 bil.*

▶ Born 12/29/29, St. Louis, Mo.; AB (1952), MBA (1954), Harvard. Career path–finance/accounting; tenure–33 years, CEO 15 years. Compensation: 1989 salary & bonus, $1,121,000[1]; ownership, 142,000 shares. ▶ This may be the year his strategy, challenged by two raids, is finally vindicated. New, heavily promoted high-tech Sensor razor a smashing success, sent stock to all-time high. Slickly styled Braun appliances continue to boom. Toiletries still perpetual sore spot. Between shaves, reads his favorite books: Agatha Christie novels, mostly.

FOOTNOTES APPEAR ON PAGE 292

GLATFELTER (P. H.)

THOMAS C. NORRIS

Spring Grove, Pa. *717-225-4711*

SALES: *$599 mil.* PROFITS: *$93 mil.*

MARKET VALUE: *$808 mil.*

▶ Born 5/9/38, York, Pa.; BA (business admin.), Gettysburg, 1960. Career path–finance/accounting; tenure–30 years, CEO 10 years. Compensation: 1989 salary & bonus, $619,000; ownership, 54,000 direct, 3,000 indirect shares. ▶ Paper industry's overcapacity is starting to hurt him a bit, with earnings slipping this year. But he's in better shape than most, thanks to niche in high-quality and specialty papers. He's also helped by rising foreign sales of tobacco papers. And downturn does at least spell lower raw-materials costs.

GLENFED

NORMAN M. COULSON

Glendale, Calif. *818-500-2000*

SALES: *$2.6 bil.* PROFITS: *$116 mil.*

MARKET VALUE: *$309 mil.*

▶ Born 3/18/33, Hilt, Calif.; BS (management), Long Beach State, 1957; MBA, Pepperdine, 1973. Career path–operations; tenure–33 years, CEO 3 years. Compensation: 1989 salary & bonus, $757,000; ownership, 33,000 direct, 13,000 indirect shares. ▶ This S&L's longtime conservative lending and investment strategy is paying off, a little. Eked out 1% profit gain last year while many rivals slid into the red. Duties as Federal Home Loan Bank Board member, new role as bank's chairman leave him little time for golf, his favorite.

GLOBAL MARINE

CHARLES RUSSELL LUIGS

Houston, Tex. *713-596-5100*

SALES: *$188 mil.* LOSS: *$61 mil.*

MARKET VALUE: *$613 mil.*

▶ Born 4/4/33, Evansville, Ind.; BS (petro. eng.), U. of Tex., 1957. Career path–production/manufacturing; tenure–13 years, CEO 13 years. Compensation: 1989 salary & bonus, $493,000; ownership, 7,000 shares. ▶ He's an avid sailor and pilot–and doing an impressive job of navigation. His offshore drilling company emerged from bankruptcy last year. Already, share price has tripled and he's ahead of schedule paying off creditors. Modern fleet active in North Sea, where rates are strong, and Gulf of Mexico, where rebound is beginning.

GM HUGHES ELECTRONICS

ROBERT J. SCHULTZ

Detroit, Mich. *313-556-5000*

SALES: *$11.2 bil.* PROFITS: *$781 mil.*

MARKET VALUE: *$1.6 bil.*

▶ Born 5/22/30, Lansing, Mich.; BS (mech. eng., 1953), MBA (1969), Mich. State. Career path–engineering/technical; tenure–35 years, CEO 2 years. Compensation: 1989 salary & bonus, NA[6]; ownership, 6,000 direct, 3,000 indirect shares. ▶ His aerospace company is known for high costs. He cut 7,200 middle managers last year but needs to do more. Mideast turmoil great for business, but he'd like more civilian customers. Elsewhere, Delco lines hurt by weak auto sales, but antilock brakes increasingly popular on GM cars. Athletic, into tennis, golf.

GOLDEN NUGGET

STEPHEN A. WYNN

Las Vegas, Nev. *702-385-7111*

SALES: *$300 mil.* LOSS: *$21 mil.*

MARKET VALUE: *$384 mil.*

▶ Born 1/27/42, Hartford, Conn.; BA (English lit.), U. of Pa., 1963. Career path–hotel & casino; tenure–17 years, CEO 17 years. Compensation: 1989 salary & bonus, $1,005,000; ownership, 4,286,000 shares. ▶ Casino high roller known for self-promoting ads. Dad ran a Maryland bingo parlor, but latest ad sketches a different childhood: himself as a boy designing a glitzy casino. His Mirage is Nevada's splashiest–but his debt totals nearly $900 million. Savvy promotion keeps payments current. But watch out if a recession makes gamblers stay home.

GOLDEN VALLEY MICROWAVE

JAMES D. WATKINS

Edina, Minn. *612-835-6900*

SALES: *$172 mil.* PROFITS: *$19 mil.*

MARKET VALUE: *$302 mil.*

▶ Born 9/17/47, Rochester, Minn.; BA (econ., fine arts), U. of Minn., 1969. Career path–engineering/technical, merchandising/marketing; tenure–12 years, CEO 12 years. Compensation: 1989 salary & bonus, $284,000; ownership, 2,604,000 direct, 331,000 indirect shares. ▶ Spuds saved his bacon. Profits from high-profile microwave popcorn business getting fried by competitors. But a joint venture with ConAgra to sell frozen taters to restaurants hiked earnings. Now, he plans a microwaveable french fry. For fun, sails on St. Croix River.

GOLDEN WEST FINANCIAL

MARION O. SANDLER

Oakland, Calif. *415-446-6000*

SALES: *$1.9 bil.* PROFITS: *$158 mil.*

MARKET VALUE: *$1.6 bil.*

▶ Born 10/17/30, Biddeford, Me.; BA (econ.), Wellesley, 1952; MBA (banking, finance), NYU, 1958. Career path–marketing, fin./accting.; tenure–27 years, CEO 10 years. Compensation: 1989 salary & bonus, $662,000; ownership, 23,000 direct, 4,751,000 indirect shares. ▶ With husband, Herbert, she runs one of the nation's best-managed S&Ls. Loan portfolio is low-risk, single-family mortgages, and costs under control. Lean staff, no frills, lots of capital. Ex-securities analyst knits and crochets. Also involved in writing, editing annual report.

GOODRICH (B. F.)

JOHN D. ONG

Akron, Ohio *216-374-2000*

SALES: *$2.4 bil.* PROFITS: *$171 mil.*

MARKET VALUE: *$917 mil.*

▶ Born 9/29/33, Uhrichsville, Ohio; BA, MA (history), Ohio State, 1954; LLB, Harvard Law, 1957. Career path–legal; tenure–29 years, CEO 11 years. Compensation: 1989 salary & bonus, $1,036,000; ownership, 21,000 shares. ▶ Though he doesn't make tires anymore, he can still feel a cyclical squeeze. High feedstock costs, low prices have hurt PVC line this year. Expanding aerospace, specialty chemicals, trying to add higher-value PVC products–engineered appliance parts, for one. He raises Black Angus cattle on his Pennsylvania farm.

GOODYEAR TIRE & RUBBER

TOM H. BARRETT

Akron, Ohio *216-796-2121*

SALES: *$10.9 bil.* PROFITS: *$189 mil.*

MARKET VALUE: *$1.3 bil.*

▶ Born 8/13/30, Topeka, Kan.; BS (bus. mgmt./admin.), Kan. State, 1953; MS (indust. rels.), MIT, 1969. Career path–engineering/technical, production/manufacturing; tenure–37 years, CEO 2 years. Compensation: 1989 salary & bonus, $955,000; ownership, 11,000 shares. ▶ Big symbolic loss when Michelin captured No. 1 tiremaking spot. Effort to hike profits by cutting discounts last year cost dealers, market share. Now he's retreading, with new ads and low-priced tires. But weak auto production, fierce competition put brakes on profits.

GOULDS PUMPS

STEPHEN VINCENT ARDIA

Seneca Falls, N. Y. *315-568-2811*

SALES: *$507 mil.* PROFITS: *$29 mil.*

MARKET VALUE: *$394 mil.*

▶ Born 8/3/41, Hackensack, N. J.; BS (eng.), U. S. Merchant Marine Acad., 1963; MBA, Rutgers, 1970. Career path–sales; tenure–26 years, CEO 5 years. Compensation: 1989 salary & bonus, $315,000; ownership, 17,000 shares. ▶ A downhill skier who's recovering from a corporate fall. Taking a $25 million writeoff from his interest in Raytec Watergroup, which he acquired three years ago. It didn't fit his organization, even after he took full control. Otherwise, his pump business is well-primed and outperforming competitors despite slow housing market.

GRACE (W. R.)

J. PETER GRACE

New York, N. Y. *212-819-5500*

SALES: *$6.1 bil.* PROFITS: *$257 mil.*

MARKET VALUE: *$2.2 bil.*

▶ Born 5/25/13, Manhasset, N. Y.; BA (econ.), Yale, 1936. Career path–finance/accounting; tenure–54 years, CEO 45 years. Compensation: 1989 salary & bonus, $1,530,000; ownership, 301,000 direct, 244,000 indirect shares.[8] ▶ One of longest serving Corporate Elite members, he's just back from a round-the-world business trip. A vocal critic of government waste, he's also slimming down the company bearing his family name. It's now mostly in specialty chemicals. Latest in a long line of heirs apparent: COO J. P. Bolduc.

GRACE ENERGY

J. PETER GRACE

Dallas, Tex. *214-770-0200*

SALES: *$360 mil.* PROFITS: *$23 mil.*

MARKET VALUE: *$488 mil.*

▶ Born 5/25/13, Manhasset, N. Y.; BA (econ.), Yale, 1936. Career path–finance/accounting; tenure–54 years, CEO 45 years. Compensation: 1989 salary & bonus, NA[2]; ownership, 4,000 shares.[8] ▶ He's built this W. R. Grace spin-off through 100 acquisitions since the 1973 energy crunch–and could benefit mightily from current troubles in the Middle East. One potential payoff of heavy R&D spending: New hard-rock drilling technology. There's a likely successor on hand, too–President Donald Grimm, who handles day-to-day affairs.

GRAINGER (W. W.)

DAVID WILLIAM GRAINGER

Skokie, Ill. *708-982-9000*

SALES: *$1.7 bil.* PROFITS: *$120 mil.*

MARKET VALUE: *$1.7 bil.*

▶ Born 10/23/27, Chicago, Ill.; BS (elect. eng.), U. of Wis., 1950. Career path–administration; tenure–39 years, CEO 23 years. Compensation: 1989 salary & bonus, $702,000; ownership, 2,036,000 direct, 851,000 indirect shares.[7] ▶ He's tinkering with a successful internal-growth strategy. His basic branches offer 24,400 items, from power tools to pipe fittings. Now, he's acquired seven specialty distributors (cutting tools, abrasives). Also making his parts business a stand-alone operation and starting a sanitary-supplies business from scratch.

GREAT ATLANTIC & PACIFIC TEA

JAMES WOOD

Montvale, N. J. *201-573-9700*

SALES: *$11.1 bil.* PROFITS: *$147 mil.*

MARKET VALUE: *$1.9 bil.*

▶ Born 1/19/30, Newcastle-Upon-Tyne, England; CB (business), Loughborough, 1955. Career path–retail food; tenure–10 years, CEO 10 years. Compensation: 1989 salary & bonus, $3,421,000; ownership, 11,000 shares. ▶ Company he helped revive now penalized by economic slowdown in Northeast (where its supermarkets are concentrated). But all's relative: Earnings still up 14% this year vs. 30% on average for A&P in recent years. He's continuing expansion, particularly in Canada. Now heading major UNICEF affiliate that fights child mortality.

GREAT LAKES CHEMICAL

EMERSON KAMPEN

West Lafayette, Ind. *317-497-6100*

SALES: *$792 mil.* PROFITS: *$123 mil.*

MARKET VALUE: *$1.8 bil.*

▶ Born 3/12/28, Kalamazoo, Mich.; BS (chem. U. of Mich., 1951. Career path–merchandising/marketing, luction/manufacturing; tenure–39 years, CEO 13 years. Com- 1989 salary & bonus, $808,000; ownership, 272,000 di- 1, 3,000 indirect shares. ▶ His specialty chemical maker does ness, especially in chemicals that boost oil production. ker less lucky divesting assets: After negotiating two ll can't get commodity chemical maker Huntsman to re- stake. He's on the board of Indiana U. Foundation.

GREAT WESTERN FINANCIAL

JAMES F. MONTGOMERY

Beverly Hills, Calif. *213-852-3411*

SALES: *$3.9 bil.* PROFITS: *$100 mil.*

MARKET VALUE: *$1.8 bil.*

▶ Born 11/30/34, Topeka, Kan.; BS (accounting), UCLA, 1957. Career path–finance/accounting; tenure–30 years, CEO 11 years. Compensation: 1989 salary & bonus, $1,298,000; ownership, 189,000 shares. ▶ He's reeling from a $77 million loan loss in fourth quarter. It stemmed from commercial real estate problems and triggered "informal" SEC probe on writedowns. His 1,000 offices (mostly in California, Florida, Washington) are still bringing in business, but he must deal with lowered credit rating, worried Wall Street analysts.

THE CORPORATE ELITE

GREIF BROS.

JOHN C. DEMPSEY

Delaware, Ohio *614-363-1271*

SALES: *$435 mil.* PROFITS: *$27 mil.*

MARKET VALUE: *$423 mil.*

▶ Born 7/14/14, Cleveland, Ohio; attended John Carroll. Career path–finance/accounting, production/manufacturing; tenure–44 years, CEO 43 years. Compensation: 1989 salary & bonus, $241,000; ownership, 12,000 direct, 3,000 indirect shares. ▶ How's this for conservative: Balance sheet lists 317,000 acres of timberland at $8.42 per acre. Record revenues at maker of barrels, boxes, other containers, but rising costs sent net down 13%. Still, he's spent $66 million on capital improvements over three years. With 98% of voting stock, he can focus on long term.

GREYHOUND DIAL

JOHN W. TEETS

Phoenix, Ariz. *602-248-4000*

SALES: *$3.5 bil.* PROFITS: *$109 mil.*

MARKET VALUE: *$1 bil.*

▶ Born 9/15/33, Elgin, Ill.; attended Elgin State. Career path–food services; tenure–27 years, CEO 9 years. Compensation: 1989 salary & bonus, $1,927,000; ownership, 136,000 shares. ▶ Gave company a new name, built a flashy new headquarters. But he has the same old problem: making this consumer-goods conglomerate work. Sold off struggling bus line three years ago, but kept 23%, which resulted in $100 million write-off this year. That could pale next to potential problems in big real estate portfolio. He's committed as ever to iron-pumping.

GRUMMAN

RENSO L. CAPORALI

Bethpage, N. Y. *516-575-0574*

SALES: *$3.6 bil.* PROFITS: *$67 mil.*

MARKET VALUE: *$478 mil.*

▶ Born 4/12/33, Batavia, N. Y.; BCE (1954), MME (1960), Clarkson; MAE (1962), MA (aero. eng., 1963), PhD (1964), Princeton. Career path–engineering/technical; tenure–31 years, CEO 3 months. Compensation: 1989 salary & bonus, $280,000; ownership, 25,000 direct, 3,000 indirect shares. ▶ Father of profitable F-14 took over when predecessor John O'Brien resigned suddenly amid hints of scandal inside company. Defense, civilian pipeline will be empty soon as plane designs age. Popular with Navy, he must find new business.

GULF STATES UTILITIES

E. LINN DRAPER JR.

Beaumont, Tex. *409-838-6631*

SALES: *$1.6 bil.* PROFITS: *$13 mil.*

MARKET VALUE: *$1.2 bil.*

▶ Born 2/6/42, Houston, Tex.; BA (1964), BS (chem. eng., 1965), Rice; PhD (nuclear eng.), Cornell, 1970. Career path–engineering/technical; tenure–12 years, CEO 4 years. Compensation: 1989 salary & bonus, $344,000; ownership, 1,000 direct, 14,000 indirect shares.[7] ▶ Former professor who's cutting costs–and no wonder. Serves 28,000 sq. mi. area between Austin and Baton Rouge, where lots of things went wrong at once. Weak local economy cut demand, while litigation over a Louisiana nuke plant is still keeping the $2.5 billion facility out of his rate base.

GTE

JAMES L. JOHNSON

Stamford, Conn. *203-965-2000*

SALES: *$17.4 bil.* PROFITS: *$1.4 bil.*

MARKET VALUE: *$17.2 bil.*

▶ BORN 4/12/27, VERNON, TEX.; BA (BUSINESS ADMIN.), TEX. TECH, 1949. CAREER PATH–FINANCE/ACCOUNTING; TENURE–41 YEARS, CEO 3 YEARS. COMPENSATION: 1989 SALARY & BONUS, $1,411,000; OWNERSHIP, 37,000 SHARES. ▶ IN HIS FOOTBALL DAYS, THEY CALLED HIM "ROCKY," AND THE NICKNAME STUCK. MOVED UP RANKS IN REGULATED PHONE INDUSTRY, BUT MAKING SOLID DEALS IN CURRENT COMPETITIVE ENVIRONMENT. RECENT TROUBLES AT SPRINT VINDICATE HIS DECISION TO SELL. ALSO, HE NEGOTIATED MERGER WITH CONTEL AT A GREAT PRICE, MAKING HIM BIGGER THAN SOME BELLS IN PHONES, SECOND IN CELLULAR. NEXT STEP: COST-CUTTING TO CARRY CONTEL'S DEBT. WANTS TO TRIM $1 BILLION BY SLICING 14,000 EMPLOYEES FROM TELEPHONE PAYROLL. TO KEEP STOCKHOLDERS HAPPY, HE BOUGHT BACK 40 MILLION SHARES IN LAST THREE YEARS, BOOSTED DIVIDEND. AVID GOLFER.

THE FUTURE: CAN WE REALLY GET THERE FROM HERE?

The future used to
be so much fun. It had
allure. It had enchantment.
It had verve.
But sadly, it had very little
to do with reality.
The future of today needs
a little more focus.
Especially when it comes to
business and computing
systems. Novell networking
software can unite your
past with your future.
So you keep the equip-
ment you have. Buy different
kinds of computers if you
want. And they'll all
work together. More power-
fully and more productively.
We planned it that way.
If linking your future
with your past seems like
a good idea today, just
imagine how good it will
sound ten years from now.

NOVELL

The Past, Present, and Future
of Network Computing.

HALLIBURTON

THOMAS H. CRUIKSHANK

Dallas, Tex. *214-978-2600*

SALES: *$5.7 bil.* PROFITS: *$134 mil.*

MARKET VALUE: *$5.7 bil.*

▶ Born 11/3/31, Lake Charles, La.; BA, Rice, 1952. Career path–finance/accounting, legal; tenure–21 years, CEO 7 years. Compensation: 1989 salary & bonus, $975,000; ownership, 98,000 direct, 4,000 indirect shares. ▶ In the rush for black gold, he sells the shovels: oil-field services and equipment. Even before Mideast turmoil, oil-field revenues were up 20% in second quarter. Oil-import woes are likely to spark more gas plays–and those services are a specialty of his. Engineering and construction services groups are thriving, too.

HAMILTON OIL

FREDERIC C. HAMILTON

Denver, Colo. *303-863-3000*

SALES: *$208 mil.* PROFITS: *$15 mil.*

MARKET VALUE: *$1 bil.*

▶ Born 9/25/27, Columbus, Ohio; attended Babson. Career path–administration; tenure–31 years, CEO 31 years. Compensation: 1989 salary & bonus, $328,000; ownership, 1,398,000 shares.[8] ▶ He trimmed the company, sold refining and coal-mining to concentrate on oil and gas, mostly in North Sea. Poised for growth as Ravenspurn North field begins producing gas this year, and Bruce field kicks in in 1993. Announced several new North Sea discoveries this year. Now, he's looking off coast of Malaysia, searching for opportunities in Eastern Bloc.

HANCOCK FABRICS

MORRIS O. JARVIS

Tupelo, Miss. *601-842-2834*

SALES: *$346 mil.* PROFITS: *$26 mil.*

MARKET VALUE: *$396 mil.*

▶ Born 11/20/40, New Albany, Miss.; attended Ky. School of Mortuary Science. Career path–merchandising/marketing; tenure–22 years, CEO 3 years. Compensation: 1989 salary & bonus, $423,000; ownership, 54,000 shares. ▶ Big problem is managing growth. Sells home sewing and craft lines, fabrics–both wholesale and retail. Added 43 stores last year (total 413), plans 30 more in 1990. Expects gains from resurgent demand for home decorating, handmade products. Enjoys fishing, dabbles in real estate, gets away to his nearby farm.

HANDLEMAN

DAVID HANDLEMAN

Troy, Mich. *313-362-4400*

SALES: *$717 mil.* PROFITS: *$37 mil.*

MARKET VALUE: *$344 mil.*

▶ Born 11/23/15, Detroit, Mich.; AB, Wayne State, 1937. Career path–merchandising/marketing; tenure–44 years, CEO 10 months. Compensation: 1989 salary & bonus, $750,000; ownership, 416,000 direct, 243,000 indirect shares.[7] ▶ He's back. Resumed duties after successor resigned. "Perhaps my shadow was too large," he speculates. Wal-Mart, second-largest customer for his CD, video, book distribution, just announced plans to acquire a competitor. So he's adding supermarkets, drug chains to his routes–and grooming another successor.

HANNA (M. A.)

MARTIN D. WALKER

Cleveland, Ohio *216-589-4000*

SALES: *$1.1 bil.* PROFITS: *$87 mil.*

MARKET VALUE: *$505 mil.*

▶ Born 6/25/32, Indianapolis, Ind.; BS (mech. eng.), General Motors Inst., 1954; MA (business admin.), Mich. State, 1970. Career path–production/manufacturing; tenure–4 years, CEO 4 years. Compensation: 1989 salary & bonus, $1,013,000; ownership, 50,000 direct, 1,000 indirect shares. ▶ Will he lose taste for pinpointing goals? Soft demand for iron-ore pellets, loss of key coal customer mean he'll miss earnings target. Core polymer line looks better. Still aims for $2 billion sales by 1993. He'll sell printing blanket business, buy back stock.

HANNAFORD BROTHERS

JAMES LEANDER MOODY JR.

Scarborough, Me. *207-883-2911*

SALES: *$1.5 bil.* PROFITS: *$37 mil.*

MARKET VALUE: *$676 mil.*

▶ Born 11/23/31, Manchester, N. H.; AB (econ.), Bates, 1953. Career path–merchandising/marketing, finance/accounting; tenure–31 years, CEO 18 years. Compensation: 1989 salary & bonus, $498,000; ownership, 329,000 direct, 15,000 indirect shares. ▶ Here's a New England company that's thriving. Sales at food retailer up by double digits. New York distribution center, brand new, running less than optimal; he's employing Japanese socio-technical strategies to improve it. Very committed to long-term planning. Attracted big-name directors to board.

HANOVER INSURANCE

WILLIAM J. O'BRIEN

Worcester, Mass. *508-853-7200*

SALES: *$1.6 bil.* PROFITS: *$83 mil.*

MARKET VALUE: *$480 mil.*

▶ Born 11/18/32, Yonkers, N. Y.; BS (business, liberal arts), Fordham, 1954. Career path–insurance; tenure–19 years, CEO 11 years. Compensation: 1989 salary & bonus, [illegible]00; ownership, 30,000 direct, 3,000 indirect shares.[7] ▶ Did he wait too long? Critics say he was slow to react to New England economic downturn. It led to higher auto and workers' compensation claims, which hurt margins at this regional insurer. But he's optimistic. With a stronger balance sheet than many competitors, expects to emerge in relatively better shape.

HARLAND (JOHN H.)

ROBERT R. WOODSON

Decatur, Ga. *404-981-9460*

SALES: *$345 mil.* PROFITS: *$58 mil.*

MARKET VALUE: *$794 mil.*

▶ Born 4/18/32, Thomaston, Ga.; BS (accounting), U. of Ga., 1958. Career path–finance/accounting; tenure–26 years, CEO 6 months. Compensation: 1989 salary & bonus, $286,000; ownership, 172,000 direct, 279,000 indirect shares. ▶ Succeeded now-Chairman J. W. Robinson at bank-check printer. Presiding over better year than last, when check volume sank. He's scouting acquisitions, replacing creaky presses with laser and offset, pushing "vanity" and "scenic" checks. His own checks? They feature a bald eagle.

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HARLEY-DAVIDSON

RICHARD F. TEERLINK

Milwaukee, Wis. *414-342-4680*

SALES: *$791 mil.* PROFITS: *$33 mil.*

MARKET VALUE: *$407 mil.*

▶ Born 10/12/36, Chicago, Ill.; BS (accounting), Bradley, 1961; MBA, U. of Chicago, 1976. Career path–finance/accounting; tenure–9 years, CEO 2 years. Compensation: 1989 salary & bonus, $540,000; ownership, 143,000 shares. ▶ Tokyo eats his dust. Resurrected motorbike maker now exports to Japan and keeps Honda, Kawasaki at bay in the "hawg" segment of domestic market. Tougher challenge: Improving performance at troubled Holiday Rambler RV subsidiary. With other execs, he roared off to a South Dakota biker fest this summer.

HARNISCHFEGER INDUSTRIES

WILLIAM W. GOESSEL

Brookfield, Wis. *414-671-4400*

SALES: *$1.5 bil.* PROFITS: *$54 mil.*

MARKET VALUE: *$501 mil.*

▶ Born 10/24/27, Beloit, Wis.; BA (mathematics), Carthage, 1950. Career path–production/manufacturing; tenure–8 years, CEO 5 years. Compensation: 1989 salary & bonus, $910,000; ownership, 11,000 shares. ▶ He's a Norman Rockwell collector–and ran this company when it was painted into a corner. Crisis averted now–but growth is slow. Sales at Beloit papermaking subsidiary are sluggish. Materials handling business is stalled, too. So he's looking for an acquisition up to $500 million. Wants $5 billion in annual revenues by end of 1990s.

HARRIS

JOHN THOMAS HARTLEY

Melbourne, Fla. *407-727-9100*

SALES: *$2.2 bil.* PROFITS: *$116 mil.*

MARKET VALUE: *$961 mil.*

▶ Born 3/4/30, Jacksonville, Fla.; BS (chem., 1951), BSEE (1955), Auburn. Career path–engineering/technical; tenure–34 years, CEO 4 years. Compensation: 1989 salary & bonus, $1,076,000; ownership, 15,000 shares.[7] ▶ Orchid grower's pruning at the office has bolstered profits this year. Shed PC lines, which accounted for most of $85 million write-off in 1989. Tending recent acquisitions in semiconductors (from GE) and office equipment (Lanier). Weaning company off government contracts while boosting foreign sales–now 30% of total.

HARSCO

MALCOLM W. GAMBILL

Camp Hill, Pa. *717-763-7064*

SALES: *$1.4 bil.* PROFITS: *$11 mil.*

MARKET VALUE: *$537 mil.*

▶ Born 6/9/30, Crumpler, N. C.; BE (civil eng.), Yale, 1953. Career path–eng./tech., prod./mfg., operations; tenure–35 years, CEO 3 years. Compensation: 1989 salary & bonus, $446,000; ownership, 17,000 direct, 6,000 indirect shares.[8] ▶ Unusually blunt in annual report, says diversified industrial company suffered "perhaps its most disappointing" year, as net slid. Hit by material costs, production delays, vendor disputes. Signed deal with Samsung to make howitzers. Now, he's fighting raider Carlyle Group, which wants to spin-off defense group.

HARTFORD STEAM BOILER INSPECTION

WILSON WILDE

Hartford, Conn. *203-722-1866*

SALES: *$501 mil.* PROFITS: *$78 mil.*

MARKET VALUE: *$995 mil.*

▶ Born 9/24/27, Hartford, Conn.; AB (econ.), Williams, 1949. Career path–insurance; tenure–37 years, CEO 19 years. Compensation: 1989 salary & bonus, $805,000; ownership, 84,000 shares. ▶ Doesn't sell boilers but does insure them and other heavy machinery, a business company created in 1866. With minimal growth there, he's into lots of other things: environmental, engineering services, which now account for one-third of revenues. He's also offering insurance lines in Europe and Asia, with General Re as his partner in the venture.

HASBRO

ALAN G. HASSENFELD

Pawtucket, R. I. *401-431-8697*

SALES: *$1.4 bil.* PROFITS: *$92 mil.*

MARKET VALUE: *$839 mil.*

▶ Born 11/16/48, Providence, R. I.; BA, U. Of Pa., 1970. Career path–production/manufacturing; tenure–20 years, CEO 1 year. Compensation: 1989 salary & bonus, $996,000; ownership, 1,789,000 direct, 2,747,000 indirect shares. ▶ He's managed to end speculation that family members might sell out after brother Stephen's death last year. No longer "world's biggest toy company" (that's Mattel now) after five flat years. New Kids on the Block license, recently acquired Cabbage Patch doll line could help this year. Active in refugee resettlement efforts.

HAWAIIAN ELECTRIC INDUSTRIES

C. DUDLEY PRATT JR.

Honolulu, Hawaii *808-543-5662*

SALES: *$884 mil.* PROFITS: *$69 mil.*

MARKET VALUE: *$642 mil.*

▶ Born 9/30/27, Honolulu, Hawaii; BE (civil eng., 1950), ME (struct. eng.,1951), Yale; MBA, U. of Hawaii, 1971. [illegible]r path–engineering/technical; tenure–37 years, CEO 7 [illegible]rs. Compensation: 1989 salary & bonus, $510,000; ownership, [illegible]00 direct, 9,000 indirect shares. ▶ Scion of old Hawaii family [illegible]soon retire from diversified utility. It's into island insurance, [illegible]ing, finance. Proposal to tap geothermal energy on Big Is- [illegible]ontroversial. Successor Bob Clarke, who heads nonutility [illegible]ons, must push project through–or figure out alternative.

HEALTH CARE PROPERTY INVESTORS

KENNETH B. ROATH

Los Angeles, Calif. *213-473-1990*

SALES: *$62 mil.* PROFITS: *$14 mil.*

MARKET VALUE: *$359 mil.*

▶ Born 12/17/35, Los Angeles, Calif.; BS (accounting), San Diego State, 1963. Career path–finance/accounting; tenure–5 years, CEO 2 years. Compensation: 1989 salary & bonus, $561,000; ownership, 47,000 shares. ▶ Sailing enthusiast keeps company steady as she goes, avoids big waves. Intends to maintain successful formula of acquiring and then leasing back acute-care hospitals, specialty clinics, nursing homes. Latest lessee is Georgia-based Charter Medical, with 12 facilities. Since he opened shop in '85, dividends have increased every quarter.

THE CORPORATE ELITE

HECHINGER

JOHN W. HECHINGER JR.

Landover, Md. *301-341-1000*

SALES: *$1.2 bil.* PROFITS: *$31 mil.*

MARKET VALUE: *$341 mil.*

▶ Born 2/9/50, Washington, D. C.; BS (business admin.), Boston U., 1972. Career path–administration; tenure–18 years, CEO 7 months. Compensation: 1989 salary & bonus, $427,000; ownership, 8,000 shares. ▶ Took reins from his father after careful grooming, but at uncertain time. Hardware chain is looking to expand its warehouse-style Home Quarters stores, but local economy's limp and competition's fierce. He's well-regarded by employees. With family stock now distributed to several members, he's got a lot of kin to please.

HEINZ (H. J.)

ANTHONY J. F. O'REILLY

Pittsburgh, Pa. *412-456-5700*

SALES: *$6.1 bil.* PROFITS: *$504 mil.*

MARKET VALUE: *$8.2 bil.*

▶ Born 5/7/36, Dublin, Ireland; BA (civil law), U. Coll. Dublin; PhD (agricultural mktg.), U. of Bradford, 1980. Career path–merchandising/marketing, legal; tenure–21 years, CEO 11 years. Compensation: 1989 salary & bonus, $1,231,000; ownership, 930,000 direct, 71,000 indirect shares. ▶ Dual life: Ex-rugby star turned entrepreneur in his native Ireland; mainline CEO in U. S. Into acquisitions–but bought trouble with move to canned dog food. Lavish contract intended to keep him from retiring for five years. Then? Maybe a political post.

HENLEY GROUP

MICHAEL DAVID DINGMAN

Hampton, N. H. *603-926-5911*

SALES: *$1.6 bil.* LOSS: *$207 mil.*

MARKET VALUE: *$407 mil.*

▶ Born 9/29/31, New Haven, Conn.; attended U. of Md. Career path–general mgmt.; tenure–21 years, CEO 21 years. Compensation: 1989 salary & bonus, $1,010,000; ownership, 301,000 direct, 26,000 indirect shares. ▶ Will he divest this company out of existence? Wanted to spin-off Fisher Scientific (diagnostic instruments) and Pneumo Abex (aircraft landing gear), but financiers balked. So now he'll keep a stake in Pneumo Abex if he gets SEC approval for the plan. Likes Formula One racing–soon in the Roush Mustang he has on order.

HERSHEY FOODS

RICHARD A. ZIMMERMAN

Hershey, Pa. *717-534-4000*

SALES: *$2.4 bil.* PROFITS: *$171 mil.*

MARKET VALUE: *$3.4 bil.*

▶ Born 4/6/32, Lebanon, Pa.; BA (liberal arts), Penn. State, 1953. Career path–production/manufacturing; tenure–32 years, CEO 6 years. Compensation: 1989 salary & bonus, $805,000; ownership, 49,000 direct, 20,000 indirect shares. ▶ He makes more than candy. Acquisition of Ronzoni Foods last February makes him No. 2 pasta maker in U. S. Low cocoa prices have plumped margins, while new Symphony bar, chocolate drink, refrigerated puddings sweeten bottom line. Slow sales in Canada should improve following management shake-up there.

HECLA MINING

ARTHUR BROWN

Coeur d'Alene, Idaho *208-769-4100*

SALES: *$99 mil.* LOSS: *$22 mil.*

MARKET VALUE: *$300 mil.*

▶ Born 10/27/40, Germiston, S. Africa; BS (mining eng.), Witwatersrand Tech., 1961. Career path–engineering/technical; tenure–23 years, CEO 3 years. Compensation: 1989 salary & bonus, $283,000; ownership, 7,000 shares. ▶ Low precious-metals prices gave him a less-than-golden year. Took $17 million in writeoffs on Sunshine Mining stock, mine shut-downs. Cut costs to mine ounce of silver from $5.50 to $4.25, but prices are still depressed. So he's digging for diversity in specialty metals–e.g., germanium-gallium for microchips, fiber optics.

HELMERICH & PAYNE

HANS CHRISTIAN HELMERICH

Tulsa, Okla. *918-742-5531*

SALES: *$151 mil.* PROFITS: *$23 mil.*

MARKET VALUE: *$780 mil.*

▶ Born 9/4/58, Tulsa, Okla.; BS (government), Dartmouth, 1981. Career path–management; tenure–9 years, CEO 10 months. Compensation: 1989 salary & bonus, $185,000; ownership, 85,000 direct, 112,000 indirect shares. ▶ With four brothers–and four kids under six–he's a family man in a family company. Still, he started in the mailroom, served in Venezuela. Tapped to succeed dad this year, his first step was to refocus attention on foreign drilling. But domestic business could improve, too, in the wake of the Middle East crisis.

HERCULES

DAVID S. HOLLINGSWORTH

Wilmington, Del. *302-594-5000*

SALES: *$3.1 bil.* LOSS: *$96 mil.*

MARKET VALUE: *$1.4 bil.*

▶ Born 5/26/28, Wilmington, Del.; BS (chem. eng.), Lehigh, 1948. Career path–technical/mktg./mgmt.; tenure–42 years, CEO 4 years. Compensation: 1989 salary & bonus, $544,000; ownership, 7,000 direct, 16,000 indirect shares. ▶ Accomplished cabinet-maker won't have quite finished recarpentering company by the time he retires next year. But reliance on commodity petrochemicals is much reduced, push into flavors, foods well along. Still has defense woes, where production cost overruns hit earnings, and still aims to divest some small units.

HEWLETT-PACKARD

JOHN A. YOUNG

Palo Alto, Calif. *415-857-1501*

SALES: *$11.9 bil.* PROFITS: *$829 mil.*

MARKET VALUE: *$8.4 bil.*

▶ Born 4/24/32, Nampa, Idaho; BS (elect. eng.), Ore. State, 1953; MBA, Stanford, 1958. Career path–engineering/technical, management; tenure–32 years, CEO 12 years. Compensation: 1989 salary & bonus, $1,250,000; ownership, 155,000 shares. ▶ Fly-fisherman's casting about for ways to up profits. Traditional minicomputer business slowing, so he's pushing into lower-margin PCs, workstations, printers. Trimming costs, paring work force. Despite surprise buy of Apollo last year, workstation line's losing ground to Sun's new machines.

FOOTNOTES APPEAR ON PAGE 292

HIBERNIA

MARTIN C. MILER

New Orleans, La. *504-586-5552*

SALES: *$696 mil.* PROFITS: *$62 mil.*

MARKET VALUE: *$367 mil.*

▶ Born 12/6/34, Mason City, Iowa; BA, William & Mary, 1957; MBA, Wharton, 1959. Career path–banking; tenure–17 years, CEO 17 years. Compensation: 1989 salary & bonus, $1,322,000; ownership, 84,000 direct, 57,000 indirect shares. ▶ Sigh. His bank broke its 15-year streak of earnings gains in first quarter, only to resume in second. Reason: increased loan-loss reserves after federal exam of nonperforming loans. Disciplined executive targeted growth westward into Texas, where he's snared 16 banks, and across southwest Louisiana.

HILLENBRAND INDUSTRIES

W. AUGUST HILLENBRAND

Batesville, Ind. *812-934-7000*

SALES: *$1.1 bil.* PROFITS: *$75 mil.*

MARKET VALUE: *$1.4 bil.*

▶ Born 9/18/40, Batesville, Ind.; BS (business), St. Joseph's, 1965. Career path–marketing, production/manufacturing; tenure–30 years, CEO 1 year. Compensation: 1989 salary & bonus, $778,000; ownership, 781,000 direct, 1,140,000 indirect shares. ▶ Fishing, hunting, sailing, cooking are things he has less time for since taking reins of family business. American Tourister luggage sales lag, hospitals buy fewer beds. Bright spots (for him at least): Price increases on caskets are sticking, funeral-planning insurance is growing fast.

HILTON HOTELS

BARRON HILTON

Beverly Hills, Calif. *213-278-4321*

SALES: *$954 mil.* PROFITS: *$110 mil.*

MARKET VALUE: *$1.7 bil.*

▶ Born 10/23/27, Dallas, Tex. Career path–hotel management; tenure–39 years, CEO 25 years. Compensation: 1989 salary & bonus, $967,000; ownership, 3,400,000 direct, 10,054,000 indirect shares. ▶ Gliding enthusiast dawdled, then pulled company off takeover tarmac in March. Many shareholders, who watched stock soar, then crash, were irate. Now, he may try gambling on Atlantic City again, five years after casino license was denied. Founder's son already has three profitable casinos in Las Vegas and another coming to upstart Laughlin.

HOLNAM

MARC R. VON WYSS

Dundee, Mich. *313-529-2411*

SALES: *$1 bil.* PROFITS: *$8 mil.*

MARKET VALUE: *$464 mil.*

▶ Born 2/12/31, Zurich, Switz.; diploma, Federal Inst. of Technology, 1956. Career path–management/technical; tenure–19 years, CEO 19 years. Compensation: 1989 salary & bonus, $514,000; ownership, 10,000 shares. ▶ Heads North America's largest cement maker, but no chip off conventional block. Motorcycles to work; plays violin in chamber orchestra. Started with Swiss bank that founded company's predecessor, now owns 87% of company. M&A expenses will probably lead to 1990 losses, but he won't get lost: He was on college orienteering team.

HOME DEPOT

BERNARD MARCUS

Atlanta, Ga. *404-433-8211*

SALES: *$2.8 bil.* PROFITS: *$112 mil.*

MARKET VALUE: *$3.9 bil.*

▶ BORN 5/12/29, NEWARK, N.J.; BS (MERCHANDISING, MARKETING), RUTGERS, 1954. CAREER PATH—MERCHANDISING/MARKETING; TENURE—12 YEARS, CEO 12 YEARS. COMPENSATION: 1989 SALARY & BONUS, $1,586,000; OWNERSHIP, 5,829,000 SHARES. ▶ ADDING STORES AT A 25%-A-YEAR CLIP TO HIS HOME-IMPROVEMENT WAREHOUSE CHAIN. BIG PUSH INTO NORTHEAST LOOKING VERY SMART AS NEW YORK AND NEW JERSEY STORES RACK UP RECORD SALES NUMBERS. NEXT STOP: BOSTON. EARNINGS UP 51%, TO $86 MILLION, IN FIRST HALF. STOCK'S ACTING SQUIRRELY, BUT HE ISN'T WORRIED, THOUGH MOST OF NET WORTH TIED UP IN HIS OWN SHARES. WORKED HIS WAY THROUGH COLLEGE AS BORSCHT BELT WAITER, PART-TIME COMEDIAN—AND STILL HAMS IT UP IN DAILY PEP RALIES FOR FAR-FLUNG STORE PERSONNEL VIA SATELLITE. HAVING TOO MUCH FUN TO EVEN THINK OF RETIRING.

HOME BENEFICIAL

RICHARD WATKINS WILTSHIRE

Richmond, Va. *804-359-0091*

SALES: *$187 mil.* PROFITS: *$44 mil.*

MARKET VALUE: *$340 mil.*

▶ Born 7/17/21, Richmond, Va.; BA (econ.), U. of Va., 1943. Career path–merchandising/marketing; tenure–43 years, CEO 22 years. Compensation: 1989 salary & bonus, $158,000; ownership, 270,000 shares.[7] ▶ Runs one of the most conservative life insurance operations around, and runs it like a family business. He involves his son and President R. W. Jr. ("Dick") and other managers in almost all decisions. R. W. Sr. ("Rick") will likely soon hand chairman and CEO titles to Dick, who may begin to make more aggressive growth moves.

HOME SHOPPING NETWORK

ROY M. SPEER

St. Petersburg, Fla. *813-572-8585*

SALES: *$774 mil.* LOSS: *$22 mil.*

MARKET VALUE: *$518 mil.*

▶ Born 6/23/32, Key West, Fla.; BA (business), SMU, 1956; JD, Stetson Law, 1959. Career path–entrepreneur; tenure–5 years, CEO 5 years. Compensation: 1989 salary & bonus, $400,000; ownership, 1,715,000 direct, 34,944,000 indirect shares.[7] ▶ He's back. Pioneer of TV shopping regaining credibility, profitability (NYSE listed in June) after losing suit last year against GTE, settling countersuit for $4.5 million. High-ticket sales flopped, so he's back to basics: jewelry, collectibles, household goods. Problem: 21% returns. Off air, a deep-sea fisherman.

HOMESTAKE MINING

HARRY M. CONGER

San Francisco, Calif. *415-981-8150*

SALES: *$398 mil.* PROFITS: *$18 mil.*

MARKET VALUE: *$2 bil.*

▶ Born 7/22/30, Seattle, Wash.; BS (mining eng.), Colo. Sch. of Mines, 1955. Career path–engineering/technical; tenure–15 years, CEO 12 years. Compensation: 1989 salary & bonus, $618,000; ownership, 46,000 direct, 99,000 indirect shares. ▶ Passes out tiny gold bars to employees to celebrate milestones–and he's handing out plenty. Produced record 1 million oz. of gold last year. Sold off oil, gas unit, withdrew from lead and zinc partnership, creating almost pure gold play. But mining costs are high at $350 per oz., and what does he do if prices fall?

HON INDUSTRIES

STANLEY M. HOWE

Muscatine, Iowa *319-264-7400*

SALES: *$602 mil.* PROFITS: *$27 mil.*

MARKET VALUE: *$579 mil.*

▶ Born 2/5/24, Muscatine, Iowa; BS (eng.), Iowa State, 1946; MBA, Harvard, 1948. Career path–production/manufacturing; tenure–43 years, CEO 11 years. Compensation: 1989 salary & bonus, $494,000; ownership, 1,599,000 direct, 883,000 indirect shares. ▶ He's finally got company firing on all cylinders. Office furniture sales growth hits double digits. Fireplace and chimney products, computer accessories picking up market share, as is three-year-old low-end furniture unit. With demand strong, he's bringing two new plants on line this year.

HONEYWELL

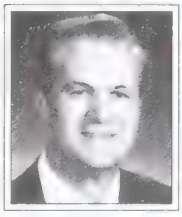
JAMES J. RENIER

Minneapolis, Minn. *612-870-5200*

SALES: *$6.1 bil.* PROFITS: *$550 mil.*

MARKET VALUE: *$3.6 bil.*

▶ Born 1/9/30, Duluth, Minn.; BS (chem.), Coll. of St. Thomas, 1951; PhD (phys. chem.), Iowa State, 1955. Career path–engineering/technical, production/manufacturing; tenure–34 years, CEO 3 years. Compensation: 1989 salary & bonus, $1,366,000; ownership, 38,000 shares. ▶ If at first you do succeed, try again. One restructuring worked, so he's doing more. After strong earnings gains, stock performance, he's cutting 4,000 jobs, pulling out of weapons businesses, spinning off others. Raised five of his eight kids after his wife died.



HORMEL (GEO. A.)

RICHARD L. KNOWLTON

Austin, Minn. *507-437-5611*

SALES: *$2.3 bil.* PROFITS: *$70 mil.*

MARKET VALUE: *$1.1 bil.*

▶ Born 6/9/32, Austin, Minn.; BA (econ., geography), U. of Colo., 1954. Career path–merchandising/marketing, production/manufacturing; tenure–36 years, CEO 9 years. Compensation: 1989 salary & bonus, $1,044,000; ownership, 184,000 shares. ▶ He reshaped this meat packer into a marketer of brand-name foods, with more than 200 new products in past five years. Despite ad costs, brands bring higher margins, less exposure to hog prices. He's moved annual meeting back home this year, after fleeing in 1985 to dodge bitter labor troubles.

HOUGHTON MIFFLIN

NADER FARHANG DAREHSHORI

Boston, Mass. *617-725-5000*

SALES: *$404 mil.* PROFITS: *$23 mil.*

MARKET VALUE: *$351 mil.*

▶ Born 12/15/36, Shiraz, Iran; BA (business admin.), U. of Wis. at Oshkosh, 1966. Career path–sales; tenure–24 years, CEO 6 months. Compensation: 1989 salary & bonus, NA[6]; ownership, 9,000 direct, 1,000 indirect shares. ▶ Former elementary schoolteacher turned sales rep bought British publisher Gollancz last October. Sold high school business education list. Restructuring, heavy marketing, and selling costs drove profits down slightly. But Robert Bass sold most of his stake–and for the first time in years, takeover talk has subsided.

HOUSEHOLD INTERNATIONAL

DONALD CAMERON CLARK

Prospect Heights, Ill. *708-564-5000*

SALES: *$3.5 bil.* PROFITS: *$218 mil.*

MARKET VALUE: *$1.2 bil.*

▶ Born 8/9/31, Brooklyn, N. Y.; BBA, Clarkson, 1953; MBA, Northwestern, 1961. Career path–finance/accounting; tenure–35 years, CEO 8 years. Compensation: 1989 salary & bonus, $1,160,000; ownership, 84,000 shares. ▶ A contrarian, he's shed his Midwest manufacturing operations and is aggressively acquiring thrift institutions. It's a buyer's market, but critics worry: In four years his loan losses have quadrupled while reserves have risen only 65%. Still, he's unflappable. Stock price down, but he predicts record 1990 income.

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HOUSTON INDUSTRIES

DON D. JORDAN

Houston, Tex. *713-629-3000*

SALES: *$3.8 bil.* PROFITS: *$458 mil.*

MARKET VALUE: *$4 bil.*

▶ Born 5/9/32, Corpus Christi, Tex.; BBA, U. of Tex., 1954; JD, South Tex. Law, 1969. Career path–merchandising/marketing, administration; tenure–34 years, CEO 13 years. Compensation: 1989 salary & bonus, $696,000; ownership, 38,000 shares.[8] ▶ Utility has its problems. Embroiled in rate-relief fight on part-owned nuke project, racking up losses at cable-TV unit. Cable cash flow not expected to turn positive for years. Analysts expect little relief from core utility business. Active in civic, charitable organizations, including Houston Symphony board.

HUBBELL

GEORGE JACKSON RATCLIFFE

Orange, Conn. *203-799-4100*

SALES: *$669 mil.* PROFITS: *$79 mil.*

MARKET VALUE: *$1.1 bil.*

▶ Born 3/22/36, Charleston, W. Va.; AB (business), Duke, 1958; LLB, JD, U. of Va. Law, 1961. Career path–finance/accounting; tenure–16 years, CEO 3 years. Compensation: 1989 salary & bonus, $640,000; ownership, 29,000 shares. ▶ Dog fancier and trout angler fishes in familiar waters. Focuses on core businesses of telecommunications and electrical products sold to electrical distributors and utilities. Acquisitions this year in phone products and lighting. His lines are big and diverse: He makes thousands of gizmos in wiring division alone.

HUMANA

DAVID A. JONES

Louisville, Ky. *502-580-1000*

SALES: *$4.1 bil.* PROFITS: *$256 mil.*

MARKET VALUE: *$4.5 bil.*

▶ Born 8/7/31, Louisville, Ky.; BS, U. of Louisville, 1954; JD, Yale Law, 1960. Career path–founder; tenure–29 years, CEO 29 years. Compensation: 1989 salary & bonus, $1,038,000; ownership, 2,030,000 direct, 273,000 indirect shares. ▶ How's this for vertical integration? He saw health care squeeze coming, so he pushed into insurance to feed patients to his hospitals. Prognosis grim for awhile, but now earnings are healthy. Focused on small cities, where he has near-monopoly. He'll have to keep buying hospitals where he sells insurance.

HUNT (J. B.) TRANSPORT SERVICES

JAMES KIRK THOMPSON

Lowell, Ark. *501-820-0000*

SALES: *$509 mil.* PROFITS: *$31 mil.*

MARKET VALUE: *$390 mil.*

▶ Born 7/28/53, Newark, Ark.; BSBA, U. of Ark., 1978. Career path–finance/accounting; tenure–17 years, CEO 4 years. Compensation: 1989 salary & bonus, $420,000[7]; ownership, 50,000 shares. ▶ Stepping on the brakes at this big, deregulated trucking company. After spending heavily on new trucks last year, he's cutting capital spending by more than 30% in 1990. Aims for 15% to 20% earnings gains after watching profits slip last year, but costs are on the rise. A Southern Baptist, he spends most of his free time on church activities.

HUNTINGTON BANCSHARES

FRANK G. WOBST

Columbus, Ohio *614-463-3623*

SALES: *$1.2 bil.* PROFITS: *$108 mil.*

MARKET VALUE: *$725 mil.*

▶ Born 11/14/33, Dresden, Germany; economics, U. of Erlangen, 1955; law, econ., U. of Goettingen, 1958. Career path–finance/accounting, lending; tenure–16 years, CEO 10 years. Compensation: 1989 salary & bonus, $845,000; ownership, 331,000 direct, 24,000 indirect shares. ▶ Runs state's quietest bank, keeps his own profile low except for heading hometown United Way effort. Made a few small acquisitions last year, now angling for a Florida S&L to complement his Naples trust business. Maybe himself a tempting takeover plum.

IBP

ROBERT L. PETERSON

Dakota City, Neb. *402-494-2061*

SALES: *$9.1 bil.* PROFITS: *$35 mil.*

MARKET VALUE: *$763 mil.*

▶ Born 7/14/32, Hartington, Neb.; attended U. of Neb. Career path–prod./mfg., livestock procurement; tenure–29 years, CEO 11 years. Compensation: 1989 salary & bonus, $2,312,000; ownership, 41,000 shares. ▶ With red-meat sales in the doldrums stateside, he's looking to the Far East. Already 9% of sales, could increase more when Japanese lift import restrictions. But limited supplies of cattle and hogs, excess processing capacity, and increasing appetite for chicken have chopped profits. All's quiet on the union front; hasn't had a strike since 1987.

IDAHO POWER

JOSEPH W. MARSHALL

Boise, Idaho *208-383-2200*

SALES: *$496 mil.* PROFITS: *$85 mil.*

MARKET VALUE: *$811 mil.*

▶ Born 9/21/38, Twin Falls, Idaho; BS (elect. eng.), U. S. Naval Acad., 1961. Career path–engineering/technical; tenure–21 years, CEO 1 year. Compensation: 1989 salary & bonus, $147,000; ownership, 9,000 shares.[7] ▶ A backpacker with plenty of extra energy. Wants to expand his utility's use–and sale–of low-cost hydropower. Idea is to build additional dams, including one on the Snake River. Then, he would wholesale electricity to Nevada, California. Plan also calls for erecting transmission line to avoid Bonneville Power regulations.

IE INDUSTRIES

LEE LIU

Cedar Rapids, Iowa *319-398-4411*

SALES: *$433 mil.* PROFITS: *$35 mil.*

MARKET VALUE: *$351 mil.*

▶ Born 3/30/33, Hunan, China; BS (elect. eng.), Iowa State, 1957. Career path–engineering/technical; tenure–33 years, CEO 7 years. Compensation: 1989 salary & bonus, $329,000; ownership, 15,000 shares. ▶ Jackpot! One of his diversifications was a 9% stake in Telecom-USA. It was recently acquired by MCI, which means he's expecting a check for $103 million. What to do with the cash? No rush: Stable Iowa economy, new metals plant coming in his service area. His nonutility operations include short-line railroad, telemarketing.

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ILLINOIS POWER

WENDELL J. KELLEY

Decatur, Ill. *217-424-6600*

SALES: *$1.3 bil.* LOSS: *$288 mil.*

MARKET VALUE: *$1.1 bil.*

▶ Born 5/2/26, Champaign, Ill.; BS (elect. eng.), U. of Ill., 1949. Career path–engineering/technical; tenure–41 years, CEO 24 years. Compensation: 1989 salary & bonus, $395,000; ownership, 7,000 direct, 8,000 indirect shares. ▶ Burly, battling utility chief. Appealing meager rate increase for Clinton nuke; won some relief on second request. Slashed 11% of workforce and closing offices to cut costs, though Valentine's Day ice storm hurt. Working to attract businesses to service area. Needs progress on all fronts before reinstating dividend.

ILLINOIS TOOL WORKS

JOHN D. NICHOLS

Glenview, Ill. *708-724-7500*

SALES: *$2.2 bil.* PROFITS: *$164 mil.*

MARKET VALUE: *$2.5 bil.*

▶ Born 9/20/30, Shanghai, China; BS (1953), MBA (1955), Harvard. Career path–finance/accounting, production/manufacturing; tenure–10 years, CEO 8 years. Compensation: 1989 salary & bonus, $753,000; ownership, 3,000 direct, 178,000 indirect shares. ▶ Aggressive acquirer continues. Bought 19 companies last year. Made four big bids, nabbing three, in this year's first half. Makes engineered components, industrial systems. Acquisitions focus on domestic front, target for growth. Even after work he keeps buying: Impressionist art.

IMC FERTILIZER

BILLIE B. TURNER

Northbrook, Ill. *708-272-9200*

SALES: *$1.2 bil.* PROFITS: *$137 mil.*

MARKET VALUE: *$849 mil.*

▶ Born 12/31/30, Whitesboro, Tex.; BS (agri. eng.), Tex. A&M, 1951. Career path–merchandising/marketing; tenure–36 years, CEO 3 years. Compensation: 1989 salary & bonus, $626,000; ownership, 17,000 direct, 38,000 indirect shares. ▶ Runs world's largest producer of phosphate rock, potash–two basic crop nutrients. Both vulnerable to farm, commodity cycles, and earnings off slightly now. But he's diversifying: Negotiating to buy Gulf of Mexico energy reserves from Chevron. Already finds oil and gas when he mines sulphur. Hunter, fisherman.

IMCERA GROUP

GEORGE D. KENNEDY

Northbrook, Ill. *708-564-8600*

SALES: *$983 mil.* PROFITS: *$110 mil.*

MARKET VALUE: *$1.1 bil.*

▶ Born 5/30/26, Pittsburgh, Pa.; BA (history), Williams, 1948. Career path–administration; tenure–19 years, CEO 7 years. Compensation: 1989 salary & bonus, $956,000; ownership, 54,000 shares. ▶ What's in a name? Initials of original, International Minerals & Chemicals, plus "era"–and it's a new one at this ex-commodity producer. Boss will double capacity of booming Optiray diagnostics dye. Specialty chemicals, animal health care thriving. He'll retire next year to spend more time breeding Labradors. Brother Robert's CEO of Union Carbide.

INB FINANCIAL

THOMAS MILTON MILLER

Indianapolis, Ind. *317-266-6000*

SALES: *$645 mil.* PROFITS: *$59 mil.*

MARKET VALUE: *$361 mil.*

▶ Born 3/2/30, Corydon, Ind.; BS (business), Ind., 1952. Career path–finance/accounting; tenure–36 years, CEO 9 years. Compensation: 1989 salary & bonus, $577,000; ownership, 116,000 direct, 9,000 indirect shares. ▶ Head of big Indiana bank holding company just made first out-of-state buy–Peoples Bank in Bloomington, Ill. Still shopping, even though he has troubles with credit quality, big charge-offs, high nonperforming-loan ratio. Some outsiders think his bank could become target of money-center lenders eager to expand in Midwest.

INGERSOLL-RAND

THEODORE H. BLACK

Woodcliff Lake, N. J. *201-573-3334*

SALES: *$3.4 bil.* PROFITS: *$202 mil.*

MARKET VALUE: *$2.2 bil.*

▶ Born 10/22/28, Jersey City, N. J.; BS (elect. eng.), U. S. Naval Acad., 1953. Career path–marketing, production, sales, mgmt.; tenure–33 years, CEO 2 years. Compensation: 1989 salary & bonus, $1,094,000; ownership, 12,000 direct, 1,000 indirect shares. ▶ Chugging along despite persistent takeover talk. Sophomore CEO sees steady if unspectacular growth ahead in bearings, equipment. Put Schlage Electronics on the block, branched into furniture-making equipment by buying Aro. Eyeing deals in USSR, where company has been active 90 years.

INLAND STEEL INDUSTRIES

FRANK W. LUERSSEN

Chicago, Ill. *312-346-0300*

SALES: *$4.1 bil.* PROFITS: *$120 mil.*

MARKET VALUE: *$899 mil.*

▶ Born 8/14/27, Reading, Pa.; BS (physics), Penn. State, 1950; MS (metallurgical eng.), Lehigh, 1951. Career path–engineering/technical; tenure–38 years, CEO 8 years. Compensation: 1989 salary & bonus, $734,000; ownership, 65,000 shares. ▶ He's been racing to create top-notch steelmaker. Big ...sh into distribution, and two ventures worth $1 billion for new ...ls with Nippon Steel, which bought 13% stake. But economic ...down, hefty startup costs at one mill are stalling earnings. ...nted by financier Harold Simmons, who bought big block.

INSPIRATION RESOURCES

REUBEN F. RICHARDS

New York, N. Y. *212-503-3100*

SALES: *$1.4 bil.* PROFITS: *$25 mil.*

MARKET VALUE: *$298 mil.*

▶ Born 8/15/29, New York, N. Y.; AB, Harvard, 1952. Career path–finance/accounting; tenure–8 years, CEO 8 years. Compensation: 1989 salary & bonus, $855,000; ownership, 9,000 shares.[8] ▶ Long-time Citicorp banker, he now heads this mining, agribusiness company indirectly controlled by South Africa's Oppenheimer family. Biggest problem is Hudson Bay Mining–hurt by falling metals prices, rising costs. Brighter side is Terra International, which markets fertilizer, crop-protection products. Watch for its new hybrid corn varieties.

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INTEGRA FINANCIAL

WILLIAM F. ROEMER

Pittsburgh, Pa. *412-644-7669*

SALES: *$694 mil.* PROFITS: *$36 mil.*

MARKET VALUE: *$479 mil.*

▶ Born 9/21/33, Youngstown, Ohio; BA (econ.), Princeton, 1955. Career path–lending; tenure–21 years, CEO 12 years. Compensation: 1989 salary & bonus, $300,000; ownership, 20,000 direct, 4,000 indirect shares. ▶ Ahead of schedule in combining the two western Pennsylvania banks that formed this regional. But he needs to move fast–and expand to neighboring states–to remain independent. Faces competition from larger cross-town rivals Mellon and PNC. Skis, but local slopes don't challenge him; he heads for Colorado.

INTEL

ANDREW S. GROVE

Santa Clara, Calif. *408-765-8080*

SALES: *$3.1 bil.* PROFITS: *$391 mil.*

MARKET VALUE: *$6.2 bil.*

▶ Born 9/2/36, Budapest, Hungary; BS (chem. eng.), City Coll. of N. Y., 1960; PhD (chem. eng.), U. of Calif. at Berkeley, 1963. Career path–engineering/technical; tenure–22 years, CEO 3 years. Compensation: 1989 salary & bonus, $674,000; ownership, 216,000 direct, 4,000 indirect shares. ▶ Tackles Lake Tahoe's peaks as intensely as he tackles work. Chipmaker can't build enough of 386 microprocessors to meet demand. Profits, cash piling up. Threat from faster RISC chip may be overplayed. Finally chose an heir apparent, Craig Barrett.

INTERGRAPH

JAMES W. MEADLOCK

Huntsville, Ala. *205-730-2000*

SALES: *$860 mil.* PROFITS: *$80 mil.*

MARKET VALUE: *$707 mil.*

▶ Born 12/19/33, Taylorsville, N. C.; BS (elect. eng.), N. C. State, 1956. Career path–engineering/technical; tenure–22 years, CEO 1 year. Compensation: 1989 salary & bonus, $300,000; ownership, 2,467,000 direct, 862,000 indirect shares. ▶ Walkaround manager. Higher sales, marketing expenses nicked earnings, but he's not panicking. With 10% North American market share, workstation maker remains tops in computer-aided design, manufacturing, engineering. He wants to reach $1 billion in revenue, build margins through cost controls.

INTERNATIONAL BUSINESS MACHINES

JOHN F. AKERS

Armonk, N. Y. *914-765-1900*

SALES: *$62.7 bil.* PROFITS: *$3.8 bil.*

MARKET VALUE: *$58.4 bil.*

▶ Born 12/28/34, Boston, Mass.; BS (indust. admin.), Yale, 1956. Career path–merchandising/marketing, ind. admin.; tenure–30 years, CEO 6 years. Compensation: 1989 salary & bonus, $713,000; ownership, 40,000 shares. ▶ On the spot–still, as Big Blue's market value dropped from No. 1. Whittling computer giant down to essentials. Restructuring should cut $1 billion in annual costs. Customers clamoring for more industry-standard products. New Unix machine may help. First new mainframes in years will compete with Japanese rivals.

INTERNATIONAL DAIRY QUEEN

MICHAEL P. SULLIVAN

Minneapolis, Minn. *612-830-0200*

SALES: *$254 mil.* PROFITS: *$23 mil.*

MARKET VALUE: *$439 mil.*

▶ Born 12/5/34, Minneapolis, Minn.; BS (polit. sci.), Marquette, 1956; JD, U. of Minn. Law, 1962. Career path–legal; tenure–16 years, CEO 3 years. Compensation: 1989 salary & bonus, $434,000; ownership, 8,000 shares.[8] ▶ There's a fast-food slump, but don't tell his 5,000 franchisees. He steadily outperforms industry and says his toughest challenge is selling headquarters' ideas (Blizzard shakes, nonfat frozen yogurt) to the troops. Moving into Europe, Asia. New Firstaff temporary-help chain is attempt to leverage franchising expertise.

INTL. FLAVORS & FRAGRANCES

EUGENE P. GRISANTI

New York, N. Y. *212-765-5500*

SALES: *$870 mil.* PROFITS: *$139 mil.*

MARKET VALUE: *$2.5 bil.*

▶ Born 10/24/29, Buffalo, N. Y.; AB (law), Holy Cross, 1951; LLB, Boston U. Law, 1953, LLM, Harvard Law, 1954. Career path–legal; tenure–30 years, CEO 5 years. Compensation: 1989 salary & bonus, $660,000; ownership, 6,000 shares. ▶ Department-store debacle smells like trouble for him: pares sales of prestige scents, 20% of his revenues. But national health jag spells good news: No-fat and low-fat foods need lots of his flavorings to make them taste like something. And weak dollar should help results, too, since 70% of sales come from overseas.

INTERNATIONAL MULTIFOODS

ANTHONY LUISO

Minneapolis, Minn. *612-340-3300*

SALES: *$2.1 bil.* PROFITS: *$25 mil.*

MARKET VALUE: *$369 mil.*

▶ Born 1/6/44, Bari, Italy; BS (business), Iona, 1967; MBA, U. of Chicago, 1982. Career path–finance/accounting, production/manufacturing; tenure–4 years, CEO 1 year. Compensation: 1989 salary & bonus, $289,000[4]; ownership, 5,000 shares. ▶ To prove his commitment to this limping food-distribution giant, the new boss last year elected to take a big hunk of compensation in stock options. Narrowing company focus paying off in dwindling debt, and food-distribution units doing well. Puts in a long workday, unwinds with exercise, weights, golf.

INTERNATIONAL TECHNOLOGY

MURRAY H. HUTCHISON

Torrance, Calif. *213-378-9933*

SALES: *$307 mil.* PROFITS: *$14 mil.*

MARKET VALUE: *$304 mil.*

▶ Born 10/19/38, San Pedro, Calif.; BS, U. of Calif. at Berkeley, 1960; BA, Inst. of Foreign Trade, 1964. Career path–administration; tenure–26 years, CEO 11 years. Compensation: 1989 salary & bonus, $600,000; ownership, 2,000 shares. ▶ Despite the name, hazardous waste's his game–and he takes the tough jobs. Won one of largest Superfund contracts: $90 million cleanup of disposal site in Crosby, Tex. Also got a $42 million contract to stop leaks at Staten Island's Freshkill landfill. Helped contain tanker spills in New Jersey, Huntington Beach, Calif.

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INTERNATIONAL PAPER

JOHN A. GEORGES

Purchase, N. Y. *914-397-1500*

SALES: *$11.4 bil.* PROFITS: *$864 mil.*

MARKET VALUE: *$5.2 bil.*

▶ BORN 2/24/31, EL PASO, TEX.; BS (CHEM. ENG.), U. OF ILL., 1951; MS (BUSINESS ADMIN.), DREXEL, 1957. CAREER PATH—ENGINEERING/TECHNICAL, PROD./MFG; TENURE—11 YEARS, CEO 6 YEARS. COMPENSATION: 1989 SALARY & BONUS, $1,311,000; OWNERSHIP, 128,000 DIRECT, 128,000 INDIRECT SHARES. ▶ QUIET AND ANALYTICAL, HE'S SECOND EX-DU PONTER TO HEAD FOREST PRODUCTS GIANT. COMING OFF BACK-TO-BACK GOOD YEARS, HE'LL BE PRESSED TO KEEP UP THE PACE IN A CYCLICAL INDUSTRY. SALES UP, PROFITS DOWN IN FIRST HALF. BUT THINGS WOULD HAVE BEEN WORSE WITHOUT STRONG PERFORMANCE OF RECENT ACQUISITIONS HAMMERMILL, MASONITE. HE'S MAKING BIG EUROPEAN INVESTMENTS TO TEMPER DEPENDENCE ON U. S. ECONOMIC CYCLES. GOAL IS TO AVERAGE 15% ROE OVER 3-TO-5-YEAR PAPER CYCLE. WANTS THAT BEFORE HE RETIRES IN 1995. OFF-HOURS, AN AVID SAILOR.

INTERPUBLIC GROUP

PHILIP HENRY GEIER JR.

New York, N. Y. *212-399-8000*

SALES: *$1.2 bil.* PROFITS: *$71 mil.*

MARKET VALUE: *$1.1 bil.*

▶ Born 2/22/35, Pontiac, Mich.; BA, Colgate, 1957; MS, Columbia, 1958. Career path–marketing; tenure–32 years, CEO 11 years. Compensation: 1989 salary & bonus, $1,705,000; ownership, 502,000 direct, 31,000 indirect shares. ▶ With U. S. ad biz in a slump, he's betting on Europe. Buying Lowe Group, big British ad group with terrific creative credentials. Also into TV programming, production. At home, pressing his agencies to cut costs. Mad Ave.'s most astute dealmaker started early, cornering vending-machine contracts at college.

IOWA RESOURCES

MARK W. PUTNEY

Des Moines, Iowa *515-281-2900*

SALES: *$361 mil.* PROFITS: *$43 mil.*

MARKET VALUE: *$454 mil.*

▶ Born 1/25/29, Marshalltown, Iowa; BA, U. of Iowa, 1951; JD, U. of Iowa Law, 1957. Career path–legal, admin.; tenure–18 years, CEO 6 years. Compensation: 1989 salary & bonus, $330,000; ownership, 4,000 direct, 8,000 indirect shares. ▶ "Quest for growth and excellence" is his motto. The growth part is all but assured: In January, utility will merge with Midwest Energy, Iowa's largest in terms of revenues. Gentleman farmer plans to retire in the next year or two, turning over quest for excellence to Midwest's chairman.

IOWA-ILLINOIS GAS & ELECTRIC

BARRY C. O'BRIEN

Davenport, Iowa *319-326-7111*

SALES: *$494 mil.* PROFITS: *$59 mil.*

MARKET VALUE: *$540 mil.*

▶ Born 5/12/27, Pittsburgh, Pa.; BS (commerce, accounting), Northwestern, 1951. Career path–finance/accounting; tenure–31 years, CEO 6 years. Compensation: 1989 salary & bonus, $289,000; ownership, 4,000 shares. ▶ Former Arthur Andersen number-cruncher getting crunched by events. Earnings off nearly 50% due to mild weather, nuclear refueling costs, and loss of key customer. Other worries: Wants to pass along a $43 million pipeline charge. But customers are balking, and case is a legal quagmire. May reach Supreme Court.

IPALCO ENTERPRISES

JOHN RAYMOND HODOWAL

Indianapolis, Ind. *317-261-8261*

SALES: *$595 mil.* PROFITS: *$101 mil.*

MARKET VALUE: *$896 mil.*

▶ Born 2/16/45, Dayton, Ohio; BS (ind. eng.), Purdue, 1966; JD, Ind. Law, 1970. Career path–finance/accounting, legal; tenure–22 years, CEO 1 year. Compensation: 1989 salary & bonus, $473,000[1]; ownership, 9,000 indirect shares.[8] ▶ He's sitting pretty. Electric utility has low rates, no nukes, strong balance sheet. Numbers-minded boss used to run Mid-America Capital Resources unit, holding company for nonutility businesses. Owns 10% of radio station operator, ambitious steam-powered air-conditioning service. Biggest challenge: capacity expansion.

PHOTOGRAPH: NINA BARNETT

ITEL

SAMUEL ZELL

Chicago, Ill. *312-902-1515*

SALES: *$2.1 bil.* PROFITS: *$30 mil.*

MARKET VALUE: *$754 mil.*

▶ Born 9/28/41, Chicago, Ill.; BS (business), U. of Mich., 1963; JD, U. of Mich. Law, 1966. Career path–real estate; tenure–6 years, CEO 5 years. Compensation: 1989 salary & bonus, $1,112,000; ownership, 8,463,000 indirect shares.[8] ▶ Real estate baron will have more elbow room at this rail-car and container leaser. Top shareholder, Henley Group, will sell back its 38.5% stake. Santa Fe Pacific and American President shipping still chill earnings, but leasing's strong. Going foreign, with stakes in Mexico and Britain. Zooms to work on his motorcycle.

ITT

RAND V. ARASKOG

New York, N. Y. *212-752-6000*

SALES: *$20.1 bil.* PROFITS: *$922 mil.*

MARKET VALUE: *$6.2 bil.*

▶ Born 10/30/31, Fergus Falls, Minn.; BS (mech. eng.), U. S. Mil. Acad., 1953. Career path–marketing, production; tenure–24 years, CEO 11 years. Compensation: 1989 salary & bonus, $2,388,000; ownership, 85,000 direct, 260,000 indirect shares. ▶ Bridge-builder's son likes business mix after years of shedding assets. Now, needs to boost so-so earnings, stock. Immediate challenge is fixing Hartford insurance group and sprucing up Sheraton hotel chain, where occupancy has slipped. One big plus: Alcatel, European phone joint venture.

JAMES RIVER CORP. OF VIRGINIA

BRENTON SHAW HALSEY

Richmond, Va. *804-644-5411*

SALES: *$6 bil.* PROFITS: *$222 mil.*

MARKET VALUE: *$1.9 bil.*

▶ Born 4/8/27, Newport News, Va.; BS (chem. eng.), U. of Va., 1951. Career path–production/manufacturing; tenure–21 years, CEO 21 years. Compensation: 1989 salary & bonus, $978,000; ownership, 595,000 direct, 58,000 indirect shares. ▶ He built this paper products giant through bargain-priced acquisitions. Now wants to shrink company by a sixth, use proceeds to buy back stock and expand most profitable lines: towels, tissues, Dixie cups, packaging. Gives managers lots of leeway–and tough performance goals. Likes to sail.

JEFFERSON-PILOT

WILLIAM ROGER SOLES

Greensboro, N. C. *919-691-3000*

SALES: *$1.1 bil.* PROFITS: *$138 mil.*

MARKET VALUE: *$1.4 bil.*

▶ Born 9/16/20, Whiteville, N. C.; BS (commerce), U. of N. C., 1947. Career path–finance/accounting; tenure–44 years, CEO 23 years. Compensation: 1989 salary & bonus, $972,000; ownership, 94,000 direct, 11,000 indirect shares. ▶ He's been trimming costs, and the result is a return to profits for this insurer. Staged a turnaround in the money-losing health insurance business by insisting on more selective underwriting. Buying stock with strong cash flow; Wall Street would rather see acquisitions. On the weekend it's golf or fishing.

JOHNSON & JOHNSON

RALPH S. LARSEN

New Brunswick, N. J. *201-524-0400*

SALES: *$9.8 bil.* PROFITS: *$1.1 bil.*

MARKET VALUE: *$21.9 bil.*

▶ Born 11/19/38, Brooklyn, N. Y.; BS (business), Hofstra, 1962. Career path–production/manufacturing, marketing; tenure–28 years, CEO 1. Compensation: 1989 salary & bonus, $847,000[1]; ownership, 24,000 shares. ▶ Cutting and combining as he works to keep banner growth streak alive. A toy business was the first to go. Also combined baby products, one of company's trademark areas, with health and dental units to save money. Blockbuster drugs have been elusive. Only the fifth chairman in 103 years. Skis, swims, reads bios for fun.

JOHNSON CONTROLS

JAMES H. KEYES

Milwaukee, Wis. *414-228-1200*

SALES: *$3.7 bil.* PROFITS: *$98 mil.*

MARKET VALUE: *$916 mil.*

▶ Born 9/2/40, LaCrosse, Wis.; BS (finance, accounting), Marquette, 1962; MBA, Northwestern, 1963. Career path–finance/accounting; tenure–24 years, CEO 3 years. Compensation: 1989 salary & bonus, $749,000[1]; ownership, 31,000 shares. ▶ His sales are rising, but earnings aren't. Blame the cost of financing acquisitions. Resulting poor stock performance brings regular takeover rumors. Diversified product lines–auto seats, building controls, plastic bottles. He's expanding overseas via joint ventures. Early riser enjoys golf, swimming.

JOSTENS

H. WILLIAM LURTON

Minneapolis, Minn. *612-830-3300*

SALES: *$696 mil.* PROFITS: *$54 mil.*

MARKET VALUE: *$994 mil.*

▶ Born 9/18/29, Greenwich, Conn.; BA (econ.), Principia, 1951. Career path–admin.; operations; sales; tenure–35 years, CEO 19 years. Compensation: 1989 salary & bonus, $798,000; ownership, 358,000 direct, 17,000 indirect shares. ▶ At the head of his class: Market leader in school rings, yearbooks, he's diversifying gingerly. Small acquisitions involve products for corporate awards, also into educational software. Splurges on family reunion, paying for meals, rooms, tickets–and gets to be pitcher at softball game. Republican fund-raiser.

JWP

ANDREW T. DWYER

Purchase, N. Y. *914-935-4000*

SALES: *$1.7 bil.* PROFITS: *$39 mil.*

MARKET VALUE: *$784 mil.*

▶ Born 7/15/48, Morristown, N. J.; BA (history), Yale, 1971; JD, N. Y. Law, 1974. Career path–legal, mgmt.; tenure–14 years, CEO 3 years. Compensation: 1989 salary & bonus, $1,274,000; ownership, 1,486,000 direct, 71,000 indirect shares. ▶ Via acquisitions, he's transformed a utility (Jamaica Water Properties) into a high-tech global engineering firm. Core business mechanical, electrical–but he wants into fast-growing fields such as pollution control, cleanup. Bought (for about $100 million in stock) a desktop computer reseller. Enjoys golf, tennis.

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JOSEPH E. ANTONINI

Troy, Mich. *313-643-1000*

SALES: *$29.8 bil.* PROFITS: *$323 mil.*

MARKET VALUE: *$5.6 bil.*

▶ Born 7/13/41, Morgantown, W. Va.; BS (business), U. of W. Va., 1964. Career path–merchandising/marketing; tenure–27 years, CEO 3 years. Compensation: 1989 salary & bonus, $899,000; ownership, 9,000 direct, 25,000 indirect shares. ▶ Plagued by sluggish growth, this avid golfer has teed up a massive modernization program. Earmarked $2.3 billion to expand or refurbish 1,880 existing stores, build 250 new ones. May help match archrival Wal-Mart's contemporary look, but it'll take more than cosmetics to compete with its lower operating costs.

KANSAS CITY POWER & LIGHT

A. DRUE JENNINGS

Kansas City, Mo. *816-556-2200*

SALES: *$731 mil.* PROFITS: *$109 mil.*

MARKET VALUE: *$909 mil.*

▶ Born 10/7/46, Topeka, Kan.; BS (education), U. of Kan., 1968; JD, U. of Kan. Law, 1972. Career path–legal; tenure–17 years, CEO 2 years. Compensation: 1989 salary & bonus, $368,000; ownership, 2,000 direct, 3,000 indirect shares. ▶ Soft-spoken lawyer had big surprise up his sleeve: first hostile tender offer of a public utility. He's offering $857 million for Wichita's Kansas G&E, his partner in big Wolf Creek nuke. Now, sparks are flying. But is the prize–a spotty performer in a weak market–worth the trouble, debt, and controversy?

KANSAS CITY SOUTHERN INDUSTRIES

LANDON HILL ROWLAND

Kansas City, Mo. *816-556-0303*

SALES: *$497 mil.* PROFITS: *$37 mil.*

MARKET VALUE: *$424 mil.*

▶ Born 5/20/37, Fuquay Springs, N. C.; BA, Dartmouth, 1959; LLB, Harvard Law, 1962. Career path–legal; tenure–11 years, CEO 4 years. Compensation: 1989 salary & bonus, $609,000; ownership, 12,000 shares. ▶ His high-tech, computer-filled office says it all: Ivy League lawyer-turned-CEO wants to expand nonrail operations. Now owns almost all of DST subsidiary, which performs accounting, record-keeping chores for financial-service industry. Still fighting coal-slurry pipeline, eager to add east-west routes to his north-south rail line.

KANSAS GAS & ELECTRIC

WILSON K. CADMAN

Wichita, Kan. *316-261-6611*

SALES: *$534 mil.* PROFITS: *$47 mil.*

MARKET VALUE: *$800 mil.*

▶ Born 9/7/27, Wichita, Kan.; BA (personnel mgmt.), Wichita State, 1951. Career path–merchandising/marketing; tenure–39 years, CEO 10 years. Compensation: 1989 salary & bonus, $284,000; ownership, 6,000 direct, 2,000 indirect shares. ▶ Crisis mode. Battling hostile bid from Kansas City Power & Light, a partner in two power plants, just when earnings are off 40%. He says offer is too low, and is exploring other options, including merger with another company, asset sales. Works six days a week. Bird hunter–for quail, prairie chicken.

KANSAS POWER & LIGHT

JOHN E. HAYES JR

Topeka, Kan. *913-296-6300*

SALES: *$1.1 bil.* PROFITS: *$73 mil.*

MARKET VALUE: *$730 mil.*

▶ Born 9/22/37, Kansas City, Mo.; BS (business), Rockhurst Coll., 1959. Career path–administration; tenure–1 year, CEO 1 year. Compensation: 1989 salary & bonus, $350,000[7]; ownership, 3,000 shares. ▶ Former Southwestern Bell executive a newcomer to power business. Determined to improve financials, he's talking about diversifying. Reorganized top management in March. Hopes experience with regulators will help win rate increases. Spending $400 million over 10 years to replace old steel gas pipelines. A golfer and hunter.

KELLOGG

WILLIAM EDWARD LAMOTHE

Battle Creek, Mich. *616-961-2000*

SALES: *$4.7 bil.* PROFITS: *$422 mil.*

MARKET VALUE: *$7.6 bil.*

▶ Born 10/23/26, Brooklyn, N. Y.; BA, Fordham, 1950. Career path–merchandising/marketing; tenure–40 years, CEO 11 years. Compensation: 1989 salary & bonus, $1,070,000; ownership, 204,000 direct, 24,000 indirect shares.[7] ▶ No snap? No crackle? He's put off retirement plans, scrambling to regain two points of market share lost in year–mostly to General Mills, which beat him with oat bran products. Also, Ralston Purina is pinching his premium pricing with high-quality, low-cost brands. Laying off 5% of clericals, selling corporate jet.

KELLY SERVICES

TERENCE E. ADDERLEY

Troy, Mich. *313-362-4444*

SALES: *$1.4 bil.* PROFITS: *$71 mil.*

MARKET VALUE: *$872 mil.*

▶ Born 9/1/33, Detroit, Mich.; BBA (1955), MBA (1956), U. of Mich. Career path–finance/accounting, operations; tenure–33 years, CEO 23 years. Compensation: 1989 salary & bonus $630,000; ownership, 684,000 direct, 171,000 indirect shares. ▶ Thoughtful, popular manager. Promotes women–30% of his corporate officers. An innovator, too: Alliance with Microsoft trains his temps to use its software; hotline helps staffers with paycheck problems; recruiting program finds homemakers eager to rejoin work force. Founder's stepson, old-car buff.

KEMPER

JOSEPH E. LUECKE

Long Grove, Ill. *708-540-2000*

SALES: *$2.8 bil.* PROFITS: *$230 mil.*

MARKET VALUE: *$1.4 bil.*

▶ Born 2/26/27, Philadelphia, Pa.; BA (pre-law), LaSalle, 1950. Career path–ins. underwriting; tenure–39 years, CEO 11 years. Compensation: 1989 salary & bonus, $651,000; ownership, 99,000 direct, 8,000 indirect shares. ▶ Low-key boss has had some high-profile troubles. Took $127 million charge, shifted executives, axed 600 jobs at unprofitable stock brokerage. Arbitration award in employee contract dispute cost another $19.5 million. Adopted poison pill but says he knows of no threat. Upped buyback to 2.5 million shares, from 2 million.

FOOTNOTES APPEAR ON PAGE 292

KENNAMETAL

QUENTIN C. MCKENNA

Latrobe, Pa. *412-539-5000*

SALES: *$472 mil.* PROFITS: *$30 mil.*

MARKET VALUE: *$293 mil.*

▶ Born 9/2/26, Claremont, Calif.; BA (math, physics), Pomona, 1948; prof. deg. (elect. eng.), Stanford, 1950. Career path–engineering/technical; tenure–12 years, CEO 11 years. Compensation: 1989 salary & bonus, $568,000[7]; ownership, 33,000 shares. ▶ Likes "stunt" kite outings at which he wages open-air battle with other fliers. No less competitive at the office, where he revived units in tooling systems, tool inserts, Profits strong. Now wants to expand distribution business. Also adding capacity, trying to halve time it takes to commercialize products.

KENTUCKY UTILITIES

JOHN T. NEWTON SR.

Lexington, Ky. *606-255-2100*

SALES: *$532 mil.* PROFITS: *$82 mil.*

MARKET VALUE: *$662 mil.*

▶ Born 7/29/30, Shelbyville, Ky.; BS (accounting), Western Ky., 1952. Career path–finance/accounting; tenure–33 years, CEO 3 years. Compensation: 1989 salary & bonus, $287,000; ownership, 16,000 shares.[7] ▶ Runs a tight utility. He's got a gimlet eye for costs, goal being to avoid a rate increase for 10 years. So far, he's gone eight, so he might make it. Victory in long lawsuit to get out of high-price coal contract could help. But there's a big threat: Scrubbers required by Clean Air Act could force 8% hike in his base rates.

KERR-McGEE

FRANK A. MCPHERSON

Oklahoma City, Okla. *405-270-1313*

SALES: *$3.1 bil.* PROFITS: *$126 mil.*

MARKET VALUE: *$2.4 bil.*

▶ Born 4/29/33, Stilwell, Okla.; BS (mech. & petro. eng.), Okla. State, 1957. Career path–operations, mgmt.; tenure–34 years, CEO 7 years. Compensation: 1989 salary & bonus, $777,000; ownership, 22,000 direct, 11,000 indirect shares. ▶ Continuing his big push into chemicals, which kicked in 40% of profits in 1989. Doubling worldwide capacity by 1993 for titanium dioxide, his most profitable product last year. Oil and gas operation is positioned for takeoff, too, with 50% boost in exploration spending in 1990. Education reformer.

KEYCORP

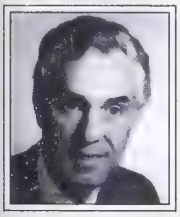
VICTOR J. RILEY JR.

Albany, N. Y. *518-486-8000*

SALES: *$1.7 bil.* PROFITS: *$137 mil.*

MARKET VALUE: *$908 mil.*

▶ Born 8/29/31, Buffalo, N. Y.; BA (econ.), Notre Dame, 1953. Career path–finance/accounting; tenure–27 years, CEO 17 years. Compensation: 1989 salary & bonus, $1,101,000; ownership, 10,000 shares. ▶ An aspiring chef, he's into dicing vegetables–and slicing overhead. Costs at the Snowbelt financial empire he assembled over past four years account for 68¢ of every revenue dollar, a figure he wants to chop significantly. But loan worries are minimal: He owns mainly small banks in small towns, with few major real estate problems.



KEYSTONE INTERNATIONAL

RAYMOND ALBERT LEBLANC

Houston, Tex. *713-466-1176*

SALES: *$376 mil.* PROFITS: *$37 mil.*

MARKET VALUE: *$835 mil.*

▶ Born 3/1/30, Buffalo, N. Y.; BCE (civil eng., business), U. of Detroit, 1955. Career path–sales, mgmt.; tenure–34 years, CEO 5 years. Compensation: 1989 salary & bonus, $686,000; ownership, 168,000 direct, 24,000 indirect shares. ▶ Engaging, motivational manager runs recession-resistant maker of high-performance valves. Riding turnaround in energy market, led big move overseas, with 57% of sales now foreign. Plans new German plant to crack Eastern Europe. Can ride out slumps, since 60%-plus of sales come from maintenance, repair.

KIMBALL INTERNATIONAL

DOUGLAS A. HABIG

Jasper, Ind. *812-482-1600*

SALES: *$595 mil.* PROFITS: *$34 mil.*

MARKET VALUE: *$413 mil.*

▶ Born 9/13/46, Louisville, Ky.; BS (psychology), St. Louis, 1968; MBA (finance), Ind., 1972. Career path–finance/accounting; tenure–15 years, CEO 9 years. Compensation: 1989 salary & bonus, $353,000; ownership, 111,000 direct, 39,000 indirect shares. ▶ He's tickled–but not by the ivories. First-year earnings are up 30% thanks to demand *con brio* for his Cetra office furniture and cabinets for large television sets. But piano sales are strictly *legato*. Hurt by imports, electronic products. And, he claims, because U. S. students are too busy to practice.

KIMBERLY-CLARK

DARWIN E. SMITH

Dallas, Tex. *214-830-1200*

SALES: *$5.7 bil.* PROFITS: *$424 mil.*

MARKET VALUE: *$5.9 bil.*

▶ Born 4/16/26, Garrett, Ind.; BS, Ind., 1950; LLB, Harvard Law, 1955. Career path–fin./accting., legal, admin.; tenure–32 years, CEO 19 years. Compensation: 1989 salary & bonus, $1,308,000; ownership, 173,000 shares. ▶ He's chosen an heir-apparent, though he'll stay awhile. Disappointments, despite record profits: Deal to sell Canadian paper mill fell through; plant upgrade's lagging; costs squeeze margins. Europe expansion's bumpy, too. Core U. S. diaper business mature–and threatened by Greens. He's urging parents, shareholders to fight back.

KING WORLD PRODUCTIONS

MICHAEL GORDON KING

West Los Angeles, Calif. *213-826-1108*

SALES: *$396 mil.* PROFITS: *$73 mil.*

MARKET VALUE: *$760 mil.*

▶ Born 3/8/48, Rahway, N. J.; BA (marketing, broadcast comm.), Fairleigh Dickinson, 1971. Career path–marketing/sales; tenure–8 years, CEO 6 years. Compensation: 1989 salary & bonus, $1,665,000; ownership, 3,347,000 shares. ▶ His *Wheel of Fortune* keeps on rolling, confounding skeptics who thought company's syndicated TV shows would be worn out by now. Other winners include *Jeopardy!* and *Oprah*. Trying to revive *Candid Camera* for syndication. Has a growing cache of cash for share buybacks, a special dividend, acquisitions.

[redacted]

[redacted] FICHER

Cincinnati, Ohio *513-762-4000*

SALES: *$19.1 bil.* LOSS: *$16 mil.*

MARKET VALUE: *$1.2 bil.*

▶ Born 10/3/39, St. Louis, Mo.; BBA (marketing), Notre Dame, 1961; MBA (1963), PhD (business, 1966), U. of Chicago. Career path—academia, administration; tenure—10 years, CEO 4 months. Compensation: 1989 salary & bonus, $702,000; ownership, 208,000 direct, 7,000 indirect shares. ▶ Former U. of Kansas biz school dean helped his predecessor fight off KKR's bid for nation's No. 2 grocery chain, already the survivor of a landmark leveraged buyout. The "just say no" defense was a winner, but $5.5 billion recap left company with piles of debt. Now, he's paying it off. And earnings-sapping moves that made grocer a takeover target finally paying off, too: He's reaping benefits of glitzy new "combo" stores of up to 60,000 sq. ft. whose eye-catching nonfood departments are beefing up margins.

KNIGHT-RIDDER

JAMES KNOX BATTEN

Miami, Fla. *305-376-3800*

SALES: *$2.3 bil.* PROFITS: *$180 mil.*

MARKET VALUE: *$2.1 bil.*

▶ Born 1/11/36, Suffolk, Va.; BS (chem., biology), Davidson, 1957; MPA (public affairs), Princeton, 1962. Career path–newspaper journalism; tenure–33 years, CEO 2 years. Compensation: 1989 salary & bonus, $678,000; ownership, 10,000 shares. ▶ Good news is approval of Detroit joint-operating agreement. That means a chance to break even in 1990 instead of big loss. Information services improving. Bad news is ad sales. Former reporter (Charlotte *Observer*) now pushing customer relations. Reporters told to hear out readers' gripes, be polite.

KOGER PROPERTIES

IRA MCKISSICK KOGER

Jacksonville, Fla. *904-396-4811*

SALES: *$157 mil.* PROFITS: *$1 mil.*

MARKET VALUE: *$510 mil.*

▶ Born 12/5/12, Charleston, S. C.; BS, Coll. of Charleston, 1933. Career path–real estate; tenure–44 years, CEO 21 years. Compensation: 1989 salary & bonus, $474,000; ownership, 232,000 direct, 711,000 indirect shares. ▶ Community arts supporter, collector very artful in insulating his development company from real estate downturn. Builds mid-rise suburban office parks in Southeast, keeps cash flow up with creative marketing, sales of properties to affiliate. Strategy buys time until real estate market makes a comeback.

L. A. GEAR

ROBERT Y. GREENBERG

Los Angeles, Calif. *213-822-1995*

SALES: *$617 mil.* PROFITS: *$55 mil.*

MARKET VALUE: *$316 mil.*

▶ Born 3/6/40, Malden, Mass. Career path–sales; tenure–11 years, CEO 11 years. Compensation: 1989 salary & bonus, $5,423,000; ownership, 7,260,000 direct, 5,150,000 indirect shares. ▶ Former hairdresser and overnight sneaker tycoon running into hard times. Sales slowing, margins shrinking. Even his $20 million deal with rock superstar Michael Jackson lags: The shoeline is out, but Jackson's new album isn't. And the feds are looking for customs violations. Once a highly public optimist, he no longer grants interviews to the press.

LAFARGE

ROBERT W. MURDOCH

Reston, Va. *703-264-3600*

SALES: *$1.5 bil.* PROFITS: *$100 mil.*

MARKET VALUE: *$604 mil.*

▶ Born 3/3/42, Melbourne, Australia; BA, U. of British Columbia, 1964; LLB, U. of Toronto Law, 1967. Career path–production/manufacturing; tenure–23 years, CEO 2 years. Compensation: 1989 salary & bonus, $534,000; ownership, 1,000 shares. ▶ Heads multinational cement giant–where he worked his way up from a summer intern. Only break: A five-year stint as executive assistant to former Canadian Prime Minister Pierre Trudeau. Now trying to boost productivity at his already efficient plants. And buying U. S. construction materials companies.

THE CORPORATE ELITE

LANCE

JOHN WILLIAM DISHER

Charlotte, N. C. *704-554-1421*

SALES: *$432 mil.* PROFITS: *$45 mil.*

MARKET VALUE: *$704 mil.*

▶ Born 7/16/33, Charlotte, N. C.; BBA, Wake Forest, 1959. Career path–finance/accounting; tenure–31 years, CEO 6 months. Compensation: 1989 salary & bonus, $189,000; ownership, 14,000 shares. ▶ His delivery trucks ply Dixie's two-lane blacktops. But the mom-and-pop snack shops he serves are slowly dying. Wants into more grocery stores, though margins are bound to fall. A $60 million nest egg will ease the transition. Breakfasts daily in the company cafeteria. Favorite snack: his own Toastchee peanut butter crackers.

LAWSON PRODUCTS

BERNARD KALISH

Des Plaines, Ill. *708-827-9666*

SALES: *$177 mil.* PROFITS: *$22 mil.*

MARKET VALUE: *$356 mil.*

▶ Born 8/2/37, Chicago, Ill.; attended De-Paul. Career path–distribution; tenure–35 years, CEO 1 year. Compensation: 1989 salary & bonus, $193,000; ownership, 2,000 direct, 2,000 indirect shares. ▶ Moved up from COO of this hardware, maintenance-products distributor last year after death of close friend, colleague Daniel Meyo. He started as 18-year-old broom pusher, rose through ranks. Investing in high-tech warehousing systems (inventory of 24,000 items), expanding overseas. His son's a field sales agent. Enjoys racquetball.

LAWTER INTERNATIONAL

DANIEL TERRA

Northbrook, Ill. *708-498-4700*

SALES: *$136 mil.* PROFITS: *$19 mil.*

MARKET VALUE: *$320 mil.*

▶ Born 6/9/11, Philadelphia, Pa.; BS (chem. eng.), Penn State, 1931. Career path–entrepreneur; tenure–50 years, CEO 32 years. Compensation: 1989 salary & bonus, NA[11]; ownership, 4,666,000 shares. ▶ Things are looking up at specialty chemical producer, thanks to rebound in demand for ink products. Benefiting from restructured sales force, emphasis on commissions. New China factory should bolster Far East. Major collector of American art displays much of it in a museum bearing his name on Chicago's North Michigan Ave.

LEE ENTERPRISES

LLOYD GENE SCHERMER

Davenport, Iowa *319-383-2100*

SALES: *$250 mil.* PROFITS: *$43 mil.*

MARKET VALUE: *$523 mil.*

▶ Born 1/27/27, St. Louis, Mo.; AB (philosophy), Amherst, 1950; MBA, Harvard, 1952. Career path–administration; tenure–36 years, CEO 17 years. Compensation: 1989 salary & bonus, $657,000; ownership, 96,000 direct, 1,126,000 indirect shares. ▶ Ad slump is hitting his media empire of 19 daily papers, five TV stations. Despite cost cuts, earnings are flat. But he expects growth in boom states where he owns network affiliates–Hawaii, Arizona, New Mexico. He'll pay $100 million to buy out partner Nippon Paint in printing-plate venture.

LEGENT

JOE M. HENSON

Vienna, Va. *703-734-9494*

SALES: *$125 mil.* PROFITS: *$23 mil.*

MARKET VALUE: *$442 mil.*

▶ Born 7/11/33, Fort Smith, Ark.; BS (accounting), U. of Ark., 1954. Career path–merchandising/marketing; tenure–11 months, CEO 11 months. Compensation: 1989 salary & bonus, NA[6]; ownership, 100,000 shares. ▶ Aggressive former Prime Computer CEO leads software company that sells mainly to IBM mainframe users. Aims to boost sales to $1 billion in five years via acquisitions. He'd better be careful. At Prime, his aspirations ultimately led to depressed stock, takeover. Son of coal miner would like political office someday.

LEGGETT & PLATT

HARRY M. CORNELL JR.

Carthage, Mo. *417-358-8131*

SALES: *$992 mil.* PROFITS: *$46 mil.*

MARKET VALUE: *$521 mil.*

▶ Born 10/5/28, Palembang, Sumatra, Dutch E. I.; BS (bus. admin., marketing), U. of Mo., 1950. Career path–merchandising/marketing; tenure–40 years, CEO 30 years. Compensation: 1989 salary & bonus, $460,000; ownership, 657,000 shares.[7] ▶ Grandson of one of the founders, he's giving this diversified furniture maker more to sell for the bedroom. Now, integrating two of his typical niche acquisitions: Brass-bed maker Dresher and wire-and-foam maker No Sag. Good first half: revenues, earnings moved up while the industry moved down.

LG&E ENERGY

ROGER W. HALE

Louisville, Ky. *502-627-2210*

SALES: *$677 mil.* PROFITS: *$76 mil.*

MARKET VALUE: *$772 mil.*

▶ Born 7/16/43, Baltimore, Md.; BA (liberal arts), U. of Md., 1965; MS (mgmt.), MIT, 1979. Career path–marketing, operations; tenure–1 year, CEO 1 year. Compensation: 1989 salary & bonus, $270,000[5]; ownership, 1,000 shares. ▶ Outsider (from BellSouth) eager to change this once-stodgy utility. In first year, he eliminated 200 management jobs. Wants to add marketing savvy to engineering-dominated culture. One possible blemish: Efforts to speed approval of a rate increase led to charges of improper contact with officials; litigation pending.

LIBERTY

W. HAYNE HIPP

Greenville, S. C. *803-268-8111*

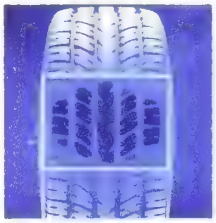
SALES: *$357 mil.* PROFITS: *$34 mil.*

MARKET VALUE: *$374 mil.*

▶ Born 3/11/40, Greenville, S. C.; BA (English), Washington & Lee, 1962; MBA (insurance), Wharton, 1965. Career path–merchandising/marketing; tenure–21 years, CEO 12 years. Compensation: 1989 salary & bonus, $387,000; ownership, 191,000 direct, 293,000 indirect shares. ▶ Wears very different hats. Holding company sells insurance via Liberty Life, mostly door-to-door. Also owns Cosmos Broadcasting, with TV outlets in medium markets. Wants to cut insurance costs; add TV stations, focus on local programs. Enjoys backpacking, kayacking.

FOOTNOTES APPEAR ON PAGE 292

The World Championship-winning Mercedes-Benz team now uses only one make of tires: Goodyear Eagles.



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LILLY (ELI)

RICHARD D. WOOD

Indianapolis, Ind. *317-276-2000*

SALES: *$4.2 bil.* PROFITS: *$940 mil.*

MARKET VALUE: *$20.5 bil.*

▶ Born 10/22/26, Brazil, Ind.; BS (eng.), Purdue, 1948; MBA, Wharton, 1950. Career path–merchandising/marketing, finance/accounting; tenure–40 years, CEO 17 years. Compensation: 1989 salary & bonus, $1,355,000; ownership, 201,000 direct, 7,000 indirect shares.[8] ▶ Profits should be up more than 20% this year–but his worries may be growing even faster. Much of the gain comes from sales of antidepressant Prozac, but the drug may have costly side effects; critics say it has been a factor in suicides. Now, must deal with lawsuits, bad publicity.

THE LIMITED

LESLIE H. WEXNER

Columbus, Ohio *614-479-7000*

SALES: *$4.6 bil.* PROFITS: *$347 mil.*

MARKET VALUE: *$6.2 bil.*

▶ Born 9/8/37, Dayton, Ohio; BS (business admin.), Ohio State, 1959. Career path–marketing, finance; tenure–27 years, CEO 27 years. Compensation: 1989 salary & bonus, $1,655,000; ownership, 98,404,000 direct, 240,000 indirect shares. ▶ After a banner 1989, last half of 1990 may prove to be a hard sell. Hot weather hurt the introduction of the "Paul et Duffier" apparel line; overall retail sales are soft. He's beefing up upscale Abercrombie & Fitch and Henri Bendel divisions. Pushes kids' duds, large sizes. Goes back to office to relax after golf.

LIN BROADCASTING

CRAIG O. MCCAW

New York, N. Y. *212-765-1902*

SALES: *$251 mil.* PROFITS: *$57 mil.*

MARKET VALUE: *$2.8 bil.*

▶ Born 8/11/49, Centralia, Wash.; BA, Stanford, 1973. Career path–strategic planning, operations; tenure–7 months, CEO 7 months. Compensation: 1989 salary & bonus, NA[2]; ownership, NA.[8] ▶ Soft-spoken and uncomfortable with publicity, he's the gambler of the cellular phone business. He captured this cellular and TV-station operator in a bidding war with Bell-South. Now he wears two hats–running his own cellular giant as well. Must scramble to make his huge investment pay off by boosting phone subscribers quickly, upgrading prime franchises.

LINCOLN NATIONAL

IAN MCKENZIE ROLLAND

Fort Wayne, Ind. *219-427-2000*

SALES: *$8.1 bil.* PROFITS: *$269 mil.*

MARKET VALUE: *$1.9 bil.*

▶ Born 6/3/33, Fort Wayne, Ind.; BA (mathematics, econ.), DePauw, 1955; MA (actuarial sci.), U. of Mich., 1956. Career path–finance/accounting, insurance; tenure–34 years, CEO 13 years. Compensation: 1989 salary & bonus, $1,113,000; ownership, 23,000 direct, 2,000 indirect shares. ▶ Hello, Ft. Wayne, this is Tokyo calling. Japan's Dai-ichi Mutual Life just bought 10% of his diversified insurer. So he wants to expand overseas operations, maybe even swap trainees, offer joint policies and investment products.

LINCOLN TELECOMMUNICATIONS

JAMES E. GEIST

Lincoln, Neb. *402-474-2211*

SALES: *$170 mil.* PROFITS: *$25 mil.*

MARKET VALUE: *$400 mil.*

▶ Born 10/14/29, Louisville, Neb.; BS (business admin.), U. of Neb., 1960. Career path–personnel, human resources; tenure–43 years, CEO 2 years. Compensation: 1989 salary & bonus, $303,000; ownership, 13,000 direct, 6,000 indirect shares. ▶ His rural Nebraska phone company is a telecommunications powerhouse–with interests in cellular, business equipment, information services. Regular takeover rumors, but high stock price and 16% stake owned by founding Woods family are his best defenses. Known as a hands-on manager.

LITTON INDUSTRIES

ORION L. HOCH

Beverly Hills, Calif. *213-859-5000*

SALES: *$5 bil.* PROFITS: *$178 mil.*

MARKET VALUE: *$1.8 bil.*

▶ Born 12/21/28, Canonsburg, Pa.; BS (physics), Carnegie-Mellon, 1952; MS (phys.), UCLA, 1954; PhD (EE), Stanford, 1957. Career path–engineering, operations, management; tenure–24 years, CEO 4 years. Compensation: 1989 salary & bonus, $1,110,000; ownership, 50,000 shares. ▶ Spy novel buff has trouble on nearly all fronts. Recently lost two big defense electronics contracts. Shipbuilding revenues will fall when Aegis program ends. Industrial automation gear flagging because of auto slump. But he's buying back stock.

LIZ CLAIBORNE

JEROME A. CHAZEN

New York, N. Y. *212-354-4900*

SALES: *$1.4 bil.* PROFITS: *$165 mil.*

MARKET VALUE: *$2.4 bil.*

▶ Born 3/21/27, New York, N. Y.; BA (econ.), U. of Wis., 1948; MBA (finance), Columbia, 1950. Career path–merchandising/marketing; tenure–13 years, CEO 1 year. Compensation: 1989 salary & bonus, $800,000; ownership, 3,623,000 direct, 45,000 indirect shares. ▶ Jazz fan has fashion house playing a bouncy tune. Sales, earnings surging as rivals struggle. Won fans among retailers by raising discount for on-time payments. Now has accessories, cosmetics. Retired founders Liz and Arthur Ginsberg left board to spend time on charitable foundation.

LOCKHEED

DANIEL M. TELLEP

Calabasas, Calif. *818-712-2000*

SALES: *$9.9 bil.* PROFITS: *$6 mil.*

MARKET VALUE: *$1.6 bil.*

▶ Born 11/20/31, Forest City, Pa.; BS (1954), MS (mech. eng., 1955), U. of Calif. at Berkeley. Career path–engineering/technical; tenure–35 years, CEO 2 years. Compensation: 1989 salary & bonus, $764,000; ownership, 7,000 shares. ▶ First years were "baptism by fire," he says. He's dealing with huge cost overruns, major project cancellation, tumultuous proxy fight by Harold Simmons. Share price only at about half of year ago's. Look for more Simmons trouble. Best hope for '90s: win $45 billion Advanced Tactical Fighter competition.

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LOCTITE

ROBERT W. BUTTERWORTH

Hartford, Conn. *203-520-5000*

SALES: *$456 mil.* PROFITS: *$54 mil.*

MARKET VALUE: *$874 mil.*

▶ Born 8/9/25, Newcastle, N. S. W., Australia; BS (eng.), Sydney Tech., 1955. Career path–merchandising/marketing; tenure–15 years, CEO 6 years. Compensation: 1989 salary & bonus, $495,000[7]; ownership, 35,000 shares. ▶ Confident boss once told a reporter he wanted a recession–just to prove the company could hang in there. For now, earnings at his sealants, adhesives company seem safe. Diversified automotive-heavy customer base with overseas push. Grew up in poverty, worked for five years as an indentured servant to finance education.

LOEWS

PRESTON ROBERT TISCH

New York, N. Y. *212-545-2000*

SALES: *$11.1 bil.* PROFITS: *$907 mil.*

MARKET VALUE: *$7 bil.*

▶ Born 4/29/26, New York, N. Y.; BA (econ.), U. of Mich., 1948. Career path–entrepreneur; tenure–31 years, CEO 3 years. Compensation: 1989 salary & bonus, $994,000; ownership, 9,570,000 shares.[7] ▶ Extraordinary dealmaker missed a biggie when Richard Rainwater outdueled him for Penrod Drilling. Says he'll remain on the lookout for more oil rigs to add to 10 he already owns. Former Postmaster, brother of CBS boss Larry also has big stakes in CBS, CNA Financial, Lorillard. ROE has averaged 20% over the past decade while stock has zoomed.

LONG ISLAND LIGHTING

WILLIAM J. CATACOSINOS

Hicksville, N. Y. *516-933-4590*

SALES: *$2.3 bil.* LOSS: *$96 mil.*

MARKET VALUE: *$2.1 bil.*

▶ Born 4/12/30, New York, N. Y.; BS (indust. man., 1951), MBA (1952), PhD (1962), NYU. Career path–administration; tenure–7 years, CEO 7 years. Compensation: 1989 salary & bonus, $544,000; ownership. 9,000 shares. ▶ His 1989 Shoreham settlement has finally received judicial approval. So the nuclear plant is shut down, and he will get to raise rates 5% per year for 10 years–effectively recovering 70% of the plant's costs. But that will surely cause howls: Company, which gets 60% of its power from oil, already has rates that are among the nation's highest.

LONGS DRUG STORES

ROBERT MERRILL LONG

Walnut Creek, Calif. *415-937-1170*

SALES: *$2.1 bil.* PROFITS: *$61 mil.*

MARKET VALUE: *$709 mil.*

▶ Born 5/19/38, Oakland, Calif.; BA (business admin.), Claremont, 1960. Career path–merchandising/marketing; tenure–29 years, CEO 13 years. Compensation: 1989 salary & bonus, $412,000; ownership, 405,000 direct, 1,657,000 indirect shares. ▶ Quiet, low-key boss follows dad's Depression-era business advice: No debt. Too bad that doesn't equal no problems. Chain of 252 drugstores faces a flurry of competition from supermarkets, discounters. At least a takeover seems unlikely: Directors, officers, and an ESOP own more than 40%.

LONGVIEW FIBRE

RICHARD PETER WOLLENBERG

Longview, Wash. *206-425-1550*

SALES: *$698 mil.* PROFITS: *$67 mil.*

MARKET VALUE: *$590 mil.*

▶ Born 8/1/15, Juneau, Alaska; BS (mech. eng.), U. of Calif. at Berkeley, 1936; MBA, Harvard, 1938. Career path–engineering/technical, production; tenure–51 years, CEO 13 years. Compensation: 1989 salary & bonus, $333,000; ownership, 787,000 direct, 203,000 indirect shares. ▶ Grows and sells trees on company's 496,000 acres, turns chips into pulp and paper in one of world's biggest mills. Weathering downturn, and takeover speculation subsided. Has no plans to retire; dad ran firm into his nineties. Plays bassoon in Southwest Washington Symphony.

LORAL

BERNARD L. SCHWARTZ

New York, N. Y. *212-697-1105*

SALES: *$1.3 bil.* PROFITS: *$78 mil.*

MARKET VALUE: *$736 mil.*

▶ Born 12/13/25, New York, N. Y.; BBA, City Coll. of N. Y., 1948. Career path–finance/accounting; tenure–18 years, CEO 18 years. Compensation: 1989 salary & bonus, $3,197,000; ownership, 597,000 direct, 40,000 indirect shares. ▶ Others may be downplaying defense business; not he. He's paying $715 million to buy Ford's aerospace subsidiary. Since 1983, he's made five similar acquisitions–sellers include Goodyear, IBM, Xerox. Has a knack for cutting costs and integrating operations, but latest deal is biggest, riskiest.

LOTUS DEVELOPMENT

JIM P. MANZI

Cambridge, Mass. *617-577-8500*

SALES: *$556 mil.* PROFITS: *$68 mil.*

MARKET VALUE: *$799 mil.*

▶ Born 12/22/51, Westchester Co., N. Y.; BA (classics, Colgate, 1973; MA (econ.), Fletcher School (Tufts), 1979. Career path–merchandising/marketing; tenure–7 years, CEO 6 years. Compensation: 1989 salary & bonus, $991,000; ownership, 1,124,000 shares. ▶ He was so close. His merger with Novell–which he billed as an acquisition–would have challenged rival Microsoft. But the deal collapsed. Still, he's enjoying new products, good morale. Lacks programs for Apple systems, Windows environment. Ex-newsman known for quirky sense of humor.

LOUISIANA LAND & EXPLORATION

H. LEIGHTON STEWARD

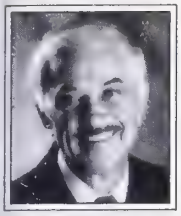
New Orleans, La. *504-566-6500*

SALES: *$714 mil.* PROFITS: *$47 mil.*

MARKET VALUE: *$1.3 bil.*

▶ Born 12/1/34, Fairfield, Tex.; BS (1958), MS (geology, 1960) SMU. Career path–petroleum exploration; tenure–8 years, CEO 2 years. Compensation: 1989 salary & bonus, $664,000; ownership, 18,000 shares. ▶ Geologist who's sold $200 million worth of properties at this oil and gas producer. Refocusing exploration on Gulf of Mexico, Wyoming's Madden Field, and North Sea. Drilling on Wall Street, too, where he regularly courts analysts. Environmentalist. Wants to protect company wetlands, but warns against regulatory overkill.

THE CORPORATE ELITE



LOUISIANA-PACIFIC

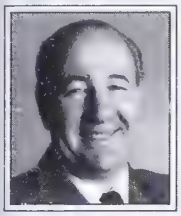
HARRY A. MERLO

Portland, Ore. *503-221-0800*

SALES: *$2 bil.* PROFITS: *$193 mil.*

MARKET VALUE: *$1.1 bil.*

▶ Born 3/5/25, Stirling City, Calif.; BS (business admin.), U. of Calif. at Berkeley, 1949. Career path–marketing, production/manufacturing; tenure–23 years, CEO 18 years. Compensation: 1989 salary & bonus, $575,000; ownership, 291,000 direct, 7,000 indirect shares. ▶ Innovator who developed waferboard plywood substitute. Now into line extensions: siding, concrete form made from wood chips, wallboard from recycled newsprint. Excited: "World's largest remaining forest is wastepaper. . . ." Enjoys big-game hunting, cowboy boots.



LSI LOGIC

WILFRED JAMES CORRIGAN

Milpitas, Calif. *408-433-8000*

SALES: *$547 mil.* LOSS: *$25 mil.*

MARKET VALUE: *$368 mil.*

▶ Born 3/21/38, Liverpool, England; BS (chem. eng.), Imperial Coll. of Science, 1960. Career path–production/manufacturing; tenure–10 years, CEO 10 years. Compensation: 1989 salary & bonus, $494,000; ownership, 4,462,000 shares. ▶ High-tech pioneer, his company created market for semi-custom chips known as gate arrays. Still a leader, but Japanese competition hurts profits. So he's into new field: RISC microprocessors for workstations made by Sun, MIPS–soon priced as low as PCs. Collects abstract art, reads history.

LUBY'S CAFETERIAS

RALPH ERBEN

San Antonio, Tex. *512-654-9000*

SALES: *$283 mil.* PROFITS: *$29 mil.*

MARKET VALUE: *$527 mil.*

▶ Born 2/8/31, New Braunfels, Tex.; BS (education), Baylor, 1954. Career path–restaurant mgmt.; tenure–31 years, CEO 9 months. Compensation: 1989 salary & bonus, $279,000; ownership, 137,000 shares. ▶ Got start serving veggies, and now he's dishing out 10% annual sales growth at 136 cafeterias. But rising costs, new minimum wage may slow earnings. He's hiking prices, but competition's tough. Opening new sites, especially in Florida. Pushing take-out. Eats out five nights a week with wife–often at competitor's restaurants.

MAGMA POWER

ARNOLD LEWIS JOHNSON

San Diego, Calif. *619-487-9412*

SALES: *$57 mil.* PROFITS: *$22 mil.*

MARKET VALUE: *$599 mil.*

▶ Born 3/15/33, Manistee, Mich.; BS (accounting), Ferris State, 1954; MBA, U. of Mich., 1957. Career path–finance/accounting; tenure–4 years, CEO 4 years. Compensation: 1989 salary & bonus, $361,000; ownership, 8,000 shares. ▶ Environmentalists like his company because its four geothermal power plants don't pollute. But he's got another problem: New regulations may limit future expansion, so growth may come largely from adding more turbines at existing sites. At vacation time, he heads back to Michigan for hunting, R&R.

LOWE'S

LEONARD GRAY HERRING

North Wilkesboro, N. C. *919-651-4000*

SALES: *$2.7 bil.* PROFITS: *$75 mil.*

MARKET VALUE: *$900 mil.*

▶ Born 6/18/27, Snow Hill, N. C.; BS (business), U. of N. C., 1948. Career path–finance/accounting; tenure–35 years, CEO 12 years. Compensation: 1989 salary & bonus, $487,000; ownership, 431,000 direct, 20,000 indirect shares. ▶ Ever feel you can't win? Earnings up 51% in second quarter at his building-supply, appliance chain–yet his stock nosedived because analysts expected more. Adding five new units this year despite soft home-improvement market, tough competition from Home Depot. Serious manager keeps a constant eye on costs.

LUBRIZOL

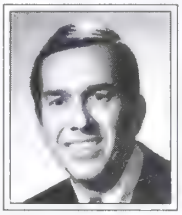
LESTER E. COLEMAN

Wickliffe, Ohio *216-943-1200*

SALES: *$1.2 bil.* PROFITS: *$94 mil.*

MARKET VALUE: *$1.4 bil.*

▶ Born 11/6/30, Akron, Ohio; BS, U. of Akron, 1952; MS (1953), PhD (chem,, 1955), U. of Ill. Career path–research; tenure–35 years, CEO 12 years. Compensation: 1989 salary & bonus, $622,000[1]; ownership, 54,000 shares. ▶ Heads maker of motor oil additives with a worldwide presence and a high-tech component. Part owner of Genentech, his company has its own biotech patents. Sees potential market replacing mineral oils with vegetable oils in many products. Active in Scouting: received Silver Buffalo award, may become national officer.



LYONDELL PETROCHEMICAL

BOB G. GOWER

Houston, Tex. *713-652-7200*

SALES: *$5.4 bil.* PROFITS: *$374 mil.*

MARKET VALUE: *$1.4 bil.*

▶ Born 8/14/37, West Frankfort, Ill.; BS (1958), MS (chem., 1960), Southern Ill.; PhD (org. chem.), U. of Minn., 1963. Career path–research, eng., mgmt.; tenure–27 years, CEO 2 years. Compensation: 1989 salary & bonus, $814,000; ownership, 20,000 shares. ▶ This ARCO spin-off makes and markets petrochemicals (major product: ethylene). His minimalist management worked wonderfully in 1988, when crude prices were falling. But can he be as big a hero when the price of oil is skyrocketing? Off-hours he works to improve public schools.

MANOR CARE

STEWART W. BAINUM JR.

Silver Spring, Md. *301-593-9600*

SALES: *$709 mil.* PROFITS: *$27 mil.*

MARKET VALUE: *$446 mil.*

▶ Born 3/25/46, Takoma Park, Md.; BA (history), Pacific Union, 1968; MBA, UCLA, 1970. Career path–management; tenure–17 years, CEO 4 years. Compensation: 1989 salary & bonus, $638,000; ownership, 2,646,000 direct, 9,139,000 indirect shares. ▶ Dad once headed nursing home chain, which mostly serves the well-heeled. Also into specialization, with some units for Alzheimer sufferers. He's expanding lodging operations, too. With passel of chains (Quality Inns, Rodeway, Econo Lodge, etc.) he claims to be world's largest hotel franchiser.

THE CORPORATE ELITE

MANUFACTURERS HANOVER

JOHN FRANCIS MCGILLICUDDY

New York, N. Y. *212-270-6000*

SALES: *$8.4 bil.* LOSS: *$588 mil.*

MARKET VALUE: *$1.8 bil.*

▶ Born 12/30/30, Port Chester, N. Y.; BA (history), Princeton, 1952; LLB, Harvard Law, 1955. Career path–finance/accounting; tenure–32 years, CEO 11 years. Compensation: 1989 salary & bonus, $1,680,000[1]; ownership, 17,000 shares. ▶ Big, generally good-natured boss completed major restructuring that included sell-off of business lender CIT Group. Hovered in background during retooling, which included management shakeup. Analysts mostly upbeat about prospects, but he still has to cut more expenses. Is a big merger in the offing?

MANUFACTURERS NATIONAL

GERALD V. MACDONALD

Detroit, Mich. *313-222-4000*

SALES: *$1.1 bil.* PROFITS: *$107 mil.*

MARKET VALUE: *$618 mil.*

▶ Born 10/30/38, Detroit, Mich.; BA (econ.), U. of Mich., 1960. Career path–commercial lending; tenure–30 years, CEO 6 months. Compensation: 1989 salary & bonus, $558,000; ownership, 16,000 direct, 6,000 indirect shares. ▶ Outgoing, amiable contrast to all-business predecessor Dean Richardson. Focusing on middle-market company lending in Chicago area, with two recent acquisitions. Also has big international plans, via J. V. Carr & Son customs brokerage unit. Expanding along Canadian border to make most of Free Trade pact.

MANVILLE

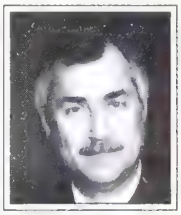
WILLIAM THOMAS STEPHENS

Denver, Colo. *303-978-2000*

SALES: *$2 bil.* PROFITS: *$173 mil.*

MARKET VALUE: *$305 mil.*

▶ Born 9/2/42, Crossett, Arkansas; BS (1965), MS (indust. eng., 1966), U. of Ark. Career path–engineering/technical, finance/accounting; tenure–24 years, CEO 4 years. Compensation: 1989 salary & bonus, $1,392,000[1]; ownership, 64,000 shares. ▶ Self-proclaimed Arkansas razorback who steered this construction-products company out of bankruptcy. Hit rough spot recently when he had to raise payments to trust for benefit of asbestos victims, which owns 80% of his company. That may force capital-spending cutback. Enjoys duck hunting, fishing.



MAPCO

JAMES E. BARNES

Tulsa, Okla. *918-581-1800*

SALES: *$2 bil.* PROFITS: *$116 mil.*

MARKET VALUE: *$1.3 bil.*

▶ Born 3/2/34, Ponca City, Okla.; BS (indust. eng., mgmt.), Okla. State, 1957. Career path–engineering/technical; tenure–7 years, CEO 7 years. Compensation: 1989 salary & bonus, $1,412,000; ownership, 89,000 shares. ▶ Look for him in the checkout line. His diversified petroleum, mining, pipeline company just bought 56 Southland convenience stores in Tennessee. Clean-air legislation also a plus for his eastern Kentucky coal reserves. Otherwise, working to boost value for stockholders: He's reduced number of shares outstanding by 25% in past year.

MARION MERRELL DOW

JOSEPH G. TEMPLE JR.

Kansas City, Mo. *816-966-4000*

SALES: *$930 mil.* PROFITS: *$227 mil.*

MARKET VALUE: *$9.4 bil.*

▶ Born 8/29/29, Chicago, Ill.; BS (chem. eng.), Purdue, 1951. Career path–sales, marketing; tenure–10 months, CEO 10 months. Compensation: 1989 salary & bonus, NA[6]; ownership, 20,000 shares. ▶ Fisherman reeled in a big one last year when he merged Marion Labs with Merrell Dow Pharmaceuticals. With little overlap in products between the two, he's expected to emphasize growth rather than cost-cutting. Drugs for colitis, epilepsy may be on the way. Must get more big drugs into the pipeline–patents for five best-sellers expire by '94.

MARRIOTT

JOHN WILLARD MARRIOTT JR.

Washington, D. C. *301-380-9000*

SALES: *$7.5 bil.* PROFITS: *$181 mil.*

MARKET VALUE: *$1.7 bil.*

▶ Born 3/25/32, Washington, D. C.; BS (banking, finance), U. of Utah, 1954. Career path–operations; tenure–34 years, CEO 18 years. Compensation: 1989 salary & bonus, $1,013,000; ownership, 4,970,000 direct, 4,594,000 indirect shares. ▶ Glut has hotel business in a slump. Founder's son is restructuring, with 10% stock buyback and sale of Roy Rogers chain. Pushing budget hotels. He's cornered contract food-service business–so making push in childcare, janitor service, and retailing. Betting $1 billion on "life-care" hotels for seniors.

MARSH & McLENNAN

FRANK J. TASCO

New York, N. Y. *212-345-5000*

SALES: *$2.4 bil.* PROFITS: *$295 mil.*

MARKET VALUE: *$5.2 bil.*

▶ Born 8/18/27, New York, N. Y.; BA, NYU, 1949. Career path–insurance; tenure–36 years, CEO 5 years. Compensation: 1989 salary & bonus, $1,425,000; ownership, 40,000 direct, 73,000 indirect shares. ▶ His insurance-brokerage industry's in midst of global consolidation, but betting is he'll keep his firm No. 1. Despite property-casualty donnybrook, he's maintained profits. Diversifying into management consulting, investment management. Expanded into Germany and bought Los Angeles-based unit that could give beachhead in Japan.

MARSHALL & ILSLEY

JOHN A. PUELICHER

Milwaukee, Wis. *414-765-7801*

SALES: *$783 mil.* PROFITS: *$85 mil.*

MARKET VALUE: *$596 mil.*

▶ Born 11/4/20, Milwaukee, Wis.; BA (business), U. of Wis., 1943. Career path–finance/accounting; tenure–52 years, CEO 9 years. Compensation: 1989 salary & bonus, $600,000; ownership, 125,000 shares. ▶ Third generation of his family to run this holding company, he owns 45 banks in Wisconsin and one in Arizona. He expanded there for growth, but wound up with lots of bad loans–his biggest current headache. Still, his overall capital position is still strong. Wisely avoided New England real estate and LBO lending. He's coy about retirement.

THE CORPORATE ELITE

MARTIN MARIETTA

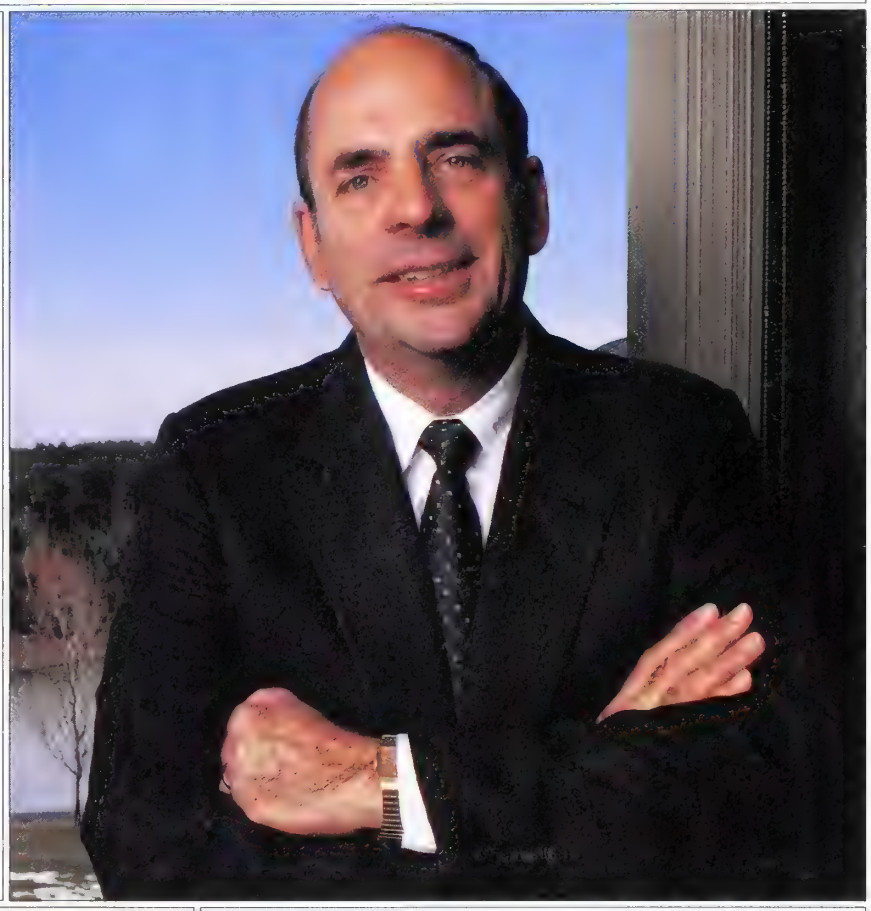
NORMAN R. AUGUSTINE

Bethesda, Md. *301-897-6000*

SALES: *$5.8 bil.* PROFITS: *$307 mil.*

MARKET VALUE: *$1.8 bil.*

▶ BORN 7/27/35, DENVER, COLO.; BS (1957), MS (AERONAUTICAL ENG., 1959), PRINCETON. CAREER PATH—ENGINEERING/TECHNICAL; TENURE—13 YEARS, CEO 3 YEARS. COMPENSATION: 1989 SALARY & BONUS, $1,033,000; OWNERSHIP, 27,000 SHARES. ▶ HIS 1982 BOOK WAS TITLED *AUGUSTINE'S LAWS*, AND ONE OF THEM IS APPROPRIATE NOW: THINGS MAY BE DESPERATE, BUT THEY AREN'T YET SERIOUS. LIKE OTHER DEFENSE CONTRACTORS, HE'S BRACING FOR PENTAGON CUTS. BUT FORTUNATELY, COMPANY CUSHIONED BY WORK SPREAD OVER MANY PROGRAMS. MILITARY USE OF TITAN IV ROCKET IS ON THE RISE, BUT COMMERCIAL SPACE SERVICE GOT MAJOR SETBACK: HIS TITAN III ROCKET FLUBBED LAUNCH OF INTELSAT'S $150 MILLION SATELLITE. LEGAL SQUABBLE UNDERWAY OVER DAMAGES, WHICH COULD LIMIT FUTURE OF COMMERCIAL LAUNCH PROGRAM. ENJOYS HIKING, HOT-AIR BALLOONING.



MASCO

RICHARD A. MANOOGIAN

Taylor, Mich. *313-274-7400*

SALES: *$3.2 bil.* PROFITS: *$221 mil.*

MARKET VALUE: *$3 bil.*

▶ Born 7/30/36, Long Branch, N.J.; BA (econ.), Yale, 1958. Career path–general mgmt.; tenure–32 years, CEO 22 years. Compensation: 1989 salary & bonus, $1,056,000; ownership, 2,200,000 shares. ▶ His Delta faucets brought brand identity and higher margins to the fragmented plumbing industry. Now, he wants to work the same magic elsewhere. But last year's $500 milllon purchase of Universal Furniture led to first earnings decline in 32 years. More bad news: Spin-off Masco Industries (49% owned) faces problems, too.

MASCO INDUSTRIES

RICHARD A. MANOOGIAN

Taylor, Mich. *313-274-7400*

SALES: *$1.7 bil.* PROFITS: *$47 mil.*

MARKET VALUE: *$438 mil.*

▶ Born 7/30/36, Long Branch, N.J.; BA (econ.), Yale, 1958. Career path–general mgmt.; tenure–6 years, CEO 6 years. Compensation: 1989 salary & bonus, $280,000; ownership, 6,437,000 shares. ▶ This Masco spin-off with 59% of sales to auto makers is spinning wheels. Profits down for second straight year. Lost as much as $20 million pretax when GM canceled Beretta convertible. Other custom-car projects stalled, too. May put acquisitions strategy on hold until profits improve. Still, he's hands-on guy who can talk machine tools as well as deals.

MATTEL

JOHN W. AMERMAN

Hawthorne, Calif. *213-978-5150*

SALES: *$1.2 bil.* PROFITS: *$80 mil.*

MARKET VALUE: *$872 mil.*

▶ Born 1/28/32, Newark, N.J.; BA (liberal arts), Dartmouth, 1953; MBA, Amos Tuck (Dartmouth), 1954. Career path–merchandising/marketing; tenure–10 years, CEO 4 years. Compensation: 1989 salary & bonus, $1,102,000; ownership, 20,000 shares. ▶ He was "toy boy" in a recent stage show, celebrating record earnings; rewarded employees with two-week bonus. Has solid management team in a sometimes-flaky industry. Stalwarts Barbie, Hot Wheels are highly profitable, but he's diversifying: Added U. K.'s Corgi to build die-cast business.

MAXUS ENERGY

CHARLES L. BLACKBURN

Dallas, Tex. *214-953-2000*

SALES: *$604 mil.* LOSS: *$31 mil.*

MARKET VALUE: *$1.2 bil.*

▶ Born 1/9/28, Cushing, Okla.; BS (eng. physics), U. of Okla., 1952. Career path–engineering/technical; tenure–4 years, CEO 4 years. Compensation: 1989 salary & bonus, $645,000; ownership, 43,000 shares. ▶ Expert fly-fisherman reeling in results at Diamond Shamrock spinoff. Beginning of a turnaround owes much to discovery of massive oil field in Indonesia, where company has half its oil and gas reserves. Loaded with debt, but former Shell executive is whittling it down with asset sales. Despite it all, company should still show a loss this year.

PHOTOGRAPH BY NOTA BENE

THE CORPORATE ELITE

MAXXAM

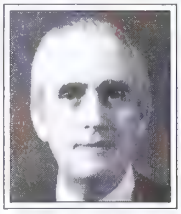
CHARLES E. HURWITZ

Houston, Tex. *718-266-8559*

SALES: *$2.4 bil.* PROFITS: *$117 mil.*

MARKET VALUE: *$452 mil.*

▶ Born 5/3/40, Kilgore, Tex.; BA (business), U. of Okla., 1962. Career path–finance/accounting; tenure–12 years, CEO 11 years. Compensation: 1989 salary & bonus, $3,977,000; ownership, 947,000 direct, 1,716,000 indirect shares. ▶ Low-key takeover artist puts in such long hours he keeps two shifts of secretaries. Assets include KaiserTech, Pacific Lumber–under fire for aggressive logging of its redwoods. Current project: Building beachfront resort in Puerto Rico. Lives in Houston, plans to move headquarters there soon.



MAY DEPARTMENT STORES

DAVID C. FARRELL

St. Louis, Mo. *314-342-6300*

SALES: *$9.6 bil.* PROFITS: *$515 mil.*

MARKET VALUE: *$5.7 bil.*

▶ Born 6/14/33, Chicago, Ill.; BA (liberal arts), Antioch, 1956. Career path–merchandising/marketing; tenure–34 years, CEO 11 years. Compensation: 1989 salary & bonus, $1,531,000; ownership, 327,000 shares. ▶ "May I help you, please?" He wants to hear more of that at 14 department-store chains (Hecht's, Lord & Taylor, Sibley's), which face competition from service-oriented outfits such as Nordstrom. With plenty of cash–and $305 million more coming from Venture spin-off–he could refurbish older locations, or buy something new.

MAYTAG

DANIEL J. KRUMM

Newton, Iowa *515-792-8000*

SALES: *$3.1 bil.* PROFITS: *$131 mil.*

MARKET VALUE: *$1.6 bil.*

▶ Born 10/15/26, Sioux City, Iowa; BA (business admin.), U. of Iowa, 1950. Career path–merchandising/marketing; tenure–38 years, CEO 17 years. Compensation: 1989 salary & bonus, $1,239,000[1]; ownership, 172,000 shares. ▶ He's on slow cycle, trying variety of options to boost demand. Foreign sales could grow in wake of 1989 Hoover acquisition. Also new Maytag refrigerator looks promising. Another plus: Company does well in replacement markets, so it's less affected by housing slump than competitors. Enjoys music–sometimes as conductor.

MBIA

WILLIAM O. BAILEY

Armonk, N. Y. *914-273-4545*

SALES: *$172 mil.* PROFITS: *$102 mil.*

MARKET VALUE: *$1.4 bil.*

▶ Born 7/1/26, Syracuse, N. Y.; BA (econ.), Dartmouth, 1947; MBA (insurance), Wharton, 1949. Career path–mgmt., insurance; tenure–4 years, CEO 4 years. Compensation: 1989 salary & bonus, $720,000; ownership, 15,000 shares. ▶ He insures municipal bonds–a little-understood, low-risk business that has yielded handsome profits. With no defaults in 16 years of operation, you'd think he could relax. But not now: If there's a recession, any slowdown in state and local tax receipts will boost the risk of his $140 billion portfolio.

MCA

LEW R. WASSERMAN

Universal City, Calif. *818-777-1000*

SALES: *$3.3 bil.* PROFITS: *$245 mil.*

MARKET VALUE: *$3.2 bil.*

▶ Born 3/15/13, Cleveland, Ohio. Career path–merchandising/marketing; tenure–54 years, CEO 31 years. Compensation: 1989 salary & bonus, $559,000; ownership, 4,954,000 direct, 141,000 indirect shares. ▶ After years of takeover rumors, it may finally happen: He's been talking to Japanese electronics giant Matsushita. Meanwhile, delegates day-to-day decisions to COO Sid Sheinberg. Still start-up glitches at his $600 million Orlando studio/theme park, but movie operations are doing better. Much-touted *Jetson* feature laid a jumbo egg.

McCAW CELLULAR COMMUNICATIONS

CRAIG O. McCAW

Kirkland, Wash. *206-827-4500*

SALES: *$504 mil.* LOSS: *$289 mil.*

MARKET VALUE: *$2.9 bil.*

▶ Born 8/11/49, Centralia, Wash.; BA, Stanford, 1973. Career path–strategic planning, operations; tenure–21 years, CEO 5 years. Compensation: 1989 salary & bonus, $289,000; ownership, NA.[8] ▶ Boosters compare this cellular communications pioneer to AT&T founder Theodore Vail. But critics say his $3.6 billion in debt is a definite wrong number. Made his network national with recent LIN Broadcasting acquisition. Private. Flies his own amphibious two-seater plane near his Bellevue home. Always on the phone.

McCLATCHY NEWSPAPERS

ERWIN REA POTTS

Sacramento, Calif. *916-321-1000*

SALES: *$381 mil.* PROFITS: *$34 mil.*

MARKET VALUE: *$428 mil.*

▶ Born 4/20/32, Pineville, N. C.; AB (journal- N. C., 1954. Career path–journalism; tenure–15 years, CEO 1 year. Compensation: 1989 salary & bonus, $441,000; ownership, 5,000 shares. ▶ First nonfamily CEO in 133 years has bought two papers in South Carolina, moving regional chain beyond West for first time. Company publishes strong, solid papers–maybe what attracted Times-Mirror to buy 7% stake. But stock voting's firmly in family hands. Longtime newspaperman is a strong tennis player and skier.

McCORMICK

CHARLES P. McCORMICK JR.

Hunt Valley, Md. *301-771-7301*

SALES: *$1.2 bil.* PROFITS: *$53 mil.*

MARKET VALUE: *$805 mil.*

▶ Born 5/29/28, Baltimore, Md.; attended Johns Hopkins, Duke. Career path–sales, corp. dev.; tenure–42 years, CEO 4 years. Compensation: 1989 salary & bonus, $869,000; ownership, 375,000 direct, 2,000 indirect shares. ▶ Once a competitive sailor, now likes power boats. Founder's great-nephew shook up putt-putt spice company, made it a growth machine. Focus on quality, service, globalization helped. Sold real estate operations. Regulators shot down plan to buy a rival, so he's still looking for acquisition to boost presence in stores.

FOOTNOTES APPEAR ON PAGE 292

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ROBERT EDWARD HOWSON

New Orleans, La. *504-587-5400*

SALES: *$2.6 bil.* LOSS: *$101 mil.*

MARKET VALUE: *$1.2 bil.*

▶ Born 8/27/31, New Orleans, La.; BS, La. Tech., 1953; MS (civil eng.), Tulane, 1961. Career path–engineering/technical; tenure–33 years, CEO 2 years. Compensation: 1989 salary & bonus, $1,041,000[1]; ownership, 65,000 shares. ▶ Shake-'em-up boss at this construction, engineering giant. Money-losing marine services unit builds drilling platforms, vessels; profitable Babcock & Wilcox builds power-generation equipment. Positive cash flow this year. Hopes record backlog will yield overall profits soon. His aim: Make company a lean global competitor.

McDONALD'S

MICHAEL R. QUINLAN

Oak Brook, Ill. *708-575-3000*

SALES: *$6.1 bil.* PROFITS: *$727 mil.*

MARKET VALUE: *$10 bil.*

▶ Born 12/9/44, Chicago, Ill.; BS (1967), MBA (1970), Loyola. Career path–production; tenure–27 years, CEO 4 years. Compensation: 1989 salary & bonus, $1,005,000; ownership, 61,000 direct, 212,000 indirect shares. ▶ Food, folks, and . . . fun? Sure, it's fun being No. 1, but competition is everywhere. Sees dinner business, now 25% of sales, as the answer–so he tests everything from pizza to fish and chips. Getting good at ducking punches from environmentalists, who don't like his packaging, and nutritionists. Enjoys an occasional poker game.

McDONNELL DOUGLAS

JOHN FINNEY McDONNELL

St. Louis, Mo. *314-232-0232*

SALES: *$14.6 bil.* LOSS: *$37 mil.*

MARKET VALUE: *$1.6 bil.*

▶ Born 3/18/38, Baltimore, Md.; BS (1960), MS (aeronautical eng., 1962), Princeton. Career path–engineering, finance; tenure–28 years, CEO 3 years. Compensation: 1989 salary & bonus, $634,000; ownership, 1,291,000 shares.[8] ▶ Soft-spoken son of founder has fat commercial backlog, but costs are soaring. Debt too high to finance new wide-body. So he's eliminating 17,000 jobs, slashing capital spending. On military side, Iraq crisis may help extend life of Apache helicopter, C-17 transport, F-15 fighter, Harrier jump jet.

McGRAW-HILL

JOSEPH L. DIONNE

New York, N. Y. *212-512-4444*

SALES: *$1.8 bil.* PROFITS: *$40 mil.*

MARKET VALUE: *$2.4 bil.*

▶ Born 6/29/33, Montgomery, Ala.; BA (business, 1955), MS (educ., 1957), Hofstra; EdD, Columbia, 1965. Career path–education, publishing; tenure–24 years, CEO 7 years. Compensation: 1989 salary & bonus, $971,000; ownership, 104,000 shares. ▶ Threatened by takeover talk for years, ex-schoolteacher survived the '80s without debt-laden restructuring. Now, he must boost operating earnings in weak economy that hurts flagship BUSINESS WEEK, trade magazines, some units of Standard & Poor's. Textbooks, foreign operations marked for expansion.

MCI COMMUNICATIONS

WILLIAM G. McGOWAN

Washington, D. C. *202-872-1600*

SALES: *$6.5 bil.* PROFITS: *$603 mil.*

MARKET VALUE: *$8.6 bil.*

▶ Born 12/10/27, Wilkes-Barre, Pa.; BS (eng.), Kings Coll., 1950; MBA, Harvard, 1953. Career path–finance/accounting; tenure–22 years, CEO 22 years. Compensation: 1989 salary & bonus, $1,325,000; ownership, 4,068,000 shares. ▶ His $1.25 billion purchase of Telecom-USA shows this former David is now at least a mini-Goliath in long-distance phones. Still argues that maxi-Goliath AT&T must keep some regulatory shackles; FCC may decide this year. Day-to-day operations fall mostly to President Bert Roberts, possible successor.

McKESSON

ALAN SEELENFREUND

San Francisco, Calif. *415-983-8300*

SALES: *$7.8 bil.* PROFITS: *$99 mil.*

MARKET VALUE: *$1.2 bil.*

▶ Born 10/22/36, New York, N. Y.; BA (mech. eng., 1959), MS (ind. eng., 1960), Cornell; PhD (mgmt. sci.) Stanford, 1967. Career path–finance/accounting; tenure–15 years, CEO 11 months. Compensation: 1989 salary & bonus, $657,000; ownership, 38,000 direct, 6,000 indirect shares. ▶ Windsurfs under Golden Gate, and faces tricky currents on land, too. Took job after management turmoil. After restructuring, drug-distribution unit's gaining. But prescription-claims processing's sagging, and earnings fell 63% at subsidiary Armor All car-care.

MCN

ALFRED R. GLANCY III

Detroit, Mich. *313-256-5500*

SALES: *$1.3 bil.* PROFITS: *$51 mil.*

MARKET VALUE: *$455 mil.*

▶ Born 3/14/38, Detroit, Mich.; AB (econ.), Princeton, 1960; MBA, Harvard, 1962. Career path–merchandising/marketing; tenure–28 years, CEO 7 years. Compensation: 1989 salary & bonus, $531,000; ownership, 67,000 shares. ▶ He's [illegible]en enough utilities get burned by flashy diversification. Since [illegible]988 spinoff from Primark, cautious executive has outperformed [illegible] rivals by focusing mainly on gas. But not entirely: Shrinking customer base has forced him to continue cutting costs while expanding nonutility lines such as computer services. Slowly.

MDU RESOURCES GROUP

JOHN A. SCHUCHART

Bismarck, N. D. *701-222-7900*

SALES: *$338 mil.* PROFITS: *$37 mil.*

MARKET VALUE: *$356 mil.*

▶ Born 11/13/29, Omaha, Neb.; BS (business admin.), U. of Neb. at Omaha, 1950. Career path–finance/accounting; tenure–15 years, CEO 10 years. Compensation: 1989 salary & bonus, $299,000; ownership, 52,000 direct, 16,000 indirect shares. ▶ Heads diversified resources company. His Montana-Dakota Utilities dances to the weather. Balances swings with natural gas distribution, oil, coal. Hitch is there: Though his tonnage is Western, it has more sulfur than most. A history buff, with a special interest in the Orient, he enjoys Asian vacations.

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INTERNATIONAL PAPER

MEAD

BURNELL R. ROBERTS

Dayton, Ohio *495-222-6323*

SALES: *$4.6 bil.* PROFITS: *$216 mil.*

MARKET VALUE: *$1.6 bil.*

▶ Born 5/6/27, Lafayette Co., Wis.; BBA, U. of Wis., 1950; MBA, Harvard, 1957. Career path–finance/accounting; tenure–24 years, CEO 8 years. Compensation: 1989 salary & bonus, $918,000[1]; ownership, 40,000 direct, 2,000 indirect shares. ▶ Head of diversified papermaker looks ahead to startup of big new mill. But returns are off. Production snafus at paper plants hurt second-quarter earnings. Demand for color-copying supplies (dubbed Imaging, a $175 million investment) is minuscule. Bright spot: Sales of packaging, especially abroad.

MEASUREX

DAVID A. BOSSEN

Cupertino, Calif. *408-255-1500*

SALES: *$285 mil.* PROFITS: *$41 mil.*

MARKET VALUE: *$310 mil.*

▶ Born 1/9/27, Clinton, Iowa; BS (ind. mgmt.), MIT, 1951. Career path–engineering/technical; tenure–23 years, CEO 23 years. Compensation: 1989 salary & bonus, $608,000; ownership, 474,000 direct, 50,000 indirect shares. ▶ A leader in computer-integrated systems that control manufacturing production; suffered from downturn in pulp and paper, major market. Expanding his base of large corporations, targeting small plastics companies. Works alongside wife Doris, who heads communications. Off hours, they're busy remodeling home.

MEDCO CONTAINMENT SERVICES

MARTIN J. WYGOD

Fair Lawn, N. J. *201-794-9010*

SALES: *$1 bil.* LOSS: *$8 mil.*

MARKET VALUE: *$1.2 bil.*

▶ Born 2/1/40, New York, N. Y.; BS, NYU, 1961. Career path–finance/accounting; tenure–13 years, CEO 7 years. Compensation: 1989 salary & bonus, $331,000; ownership, 2,252,000 direct, 65,000 indirect shares. ▶ Runs nation's largest provider of prescription drugs for benefit plans. Distributes mostly via mail, helps employers cut costs. Big deal, since drugs 7% of total health care bill. Fast growth (30% annually), but recently posted first loss in history. Culprit: investment portfolio. Former stockbroker breeds Thoroughbreds.

MEDIA GENERAL

J. STEWART BRYAN III

Richmond, Va. *804-649-6000*

SALES: *$595 mil.* PROFITS: *$21 mil.*

MARKET VALUE: *$601 mil.*

▶ Born 5/4/38, Richmond, Va.; BA (philosophy), U. of Va., 1960. Career path–reporter, publisher; tenure–25 years, CEO 3 months. Compensation: 1989 salary & bonus, $496,000; ownership, 74,000 direct, 575,000 indirect shares. ▶ Executive suite of communications company back in family hands after six-year interregnum. Chairman's personable son takes on job in hard time for newspapers, though TV and cable do well. Headache: Preservationists say proposed printing plant will destroy important Civil War site. Tough rap for loyal Virginian.

MEDICAL CARE INTERNATIONAL

DONALD E. STEEN

Dallas, Tex. *214-851-2600*

SALES: *$140 mil.* PROFITS: *$16 mil.*

MARKET VALUE: *$703 mil.*

▶ Born 11/15/46, Rochester, N. Y.; BS (accounting), U. of Mo., 1968; MS (finance), St. Louis, 1973. Career path–finance/accounting; tenure–9 years, CEO 9 years. Compensation: 1989 salary & bonus, $470,000; ownership, 80,000 shares. ▶ Mom was a nurse, dad sold pharmaceuticals. After a rocky start, he has built chain of 70 free-standing outpatient surgical centers. Aims to add four to six a year, sharing ownership with doctors. Their edge: scheduling ease, lower overhead. Technology advances, cost-containment pressure augur well for '90s.

MEDITRUST

ABRAHAM D. GOSMAN

Waltham, Mass. *617-736-1500*

SALES: *$72 mil.* PROFITS: *$22 mil.*

MARKET VALUE: *$339 mil.*

▶ Born 12/8/28, Boston, Mass.; BS (econ.), U. of N. H., 1949. Career path–health services; tenure–5 years, CEO 5 years. Compensation: 1989 salary & bonus, NA[2]; ownership, 21,000 direct, 162,000 indirect shares.[8] ▶ Owner-pilot of 132-foot Octopussy, world's fastest yacht (clocked at 53 knots). At the office, he's less flashy: has been investing in nursing homes, substance abuse facilities for over 30 years. Bought back–for $80 million–Avon's nursing-home chain–which he sold for $240 million in 1986. Trying to lure major league baseball to Tampa.

MEDTRONIC

WINSTON R. WALLIN

Minneapolis, Minn. *612-574-4000*

SALES: *$837 mil.* PROFITS: *$109 mil.*

MARKET VALUE: *$2.2 bil.*

▶ Born 3/6/26, Minneapolis, Minn.; BA (business admin.), U. of Minn., 1948. Career path–merchandising/marketing; tenure–5 years, CEO 5 years. Compensation: 1989 salary & bonus, $791,000; ownership, 43,000 shares. ▶ Heading for retirement, just as pacemaker producer hits stride. Ex-Pillsbury boss can be proud: Sales tripled on his watch. Acquired all or part of 13 companies over five years. Successor will have to digest them all. Spends free time on farm near the Mississippi. Read *Barbarians at the Gate,* found players' behavior "disgusting."

MELLON BANK

FRANK V. CAHOUET

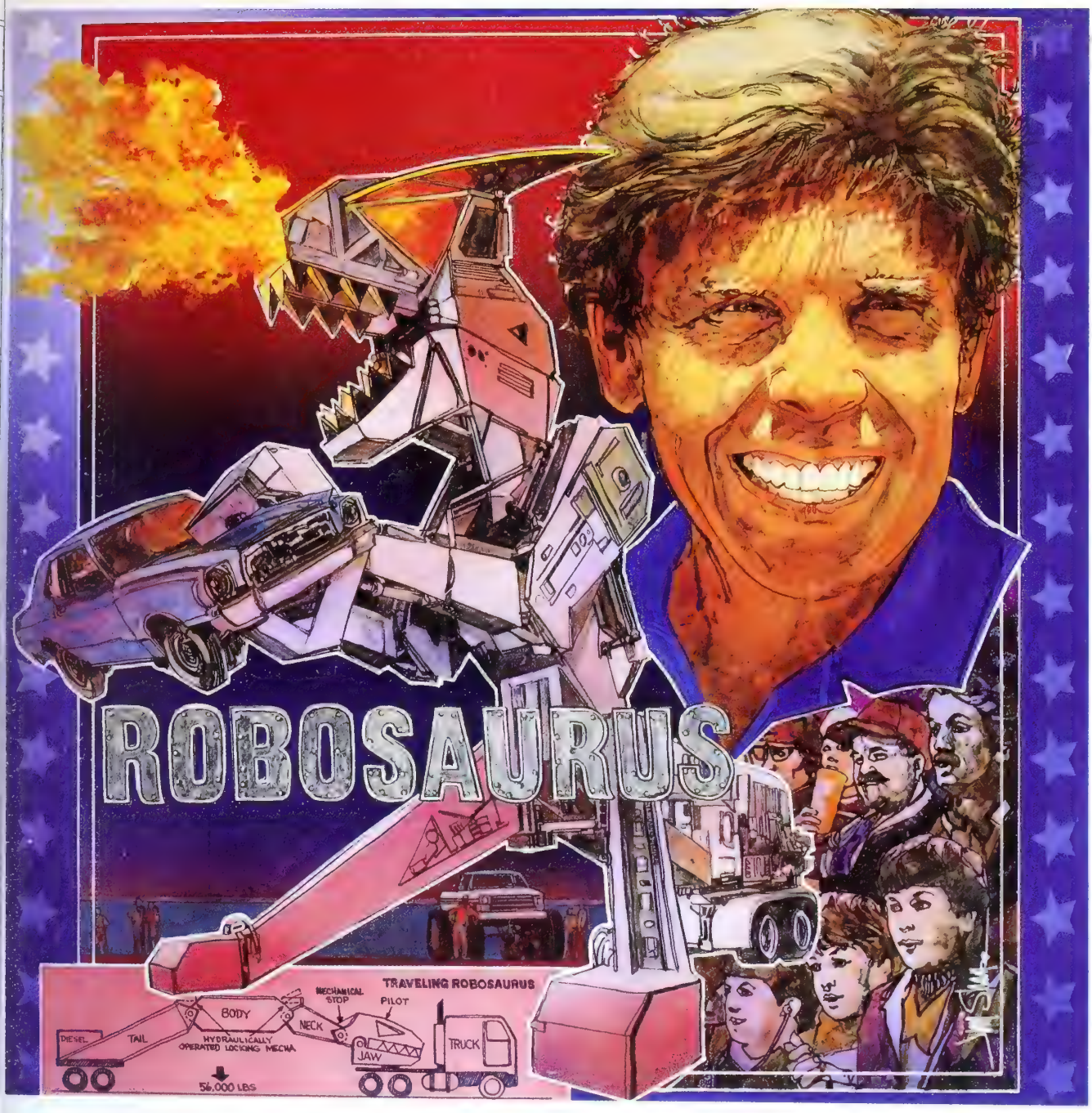
Pittsburgh, Pa. *412-234-5000*

SALES: *$3.6 bil.* PROFITS: *$181 mil.*

MARKET VALUE: *$871 mil.*

▶ Born 5/25/32, Boston, Mass.; AB (business), Harvard, 1954; MBA, Wharton, 1959. Career path–banking, administration; tenure–3 years, CEO 3 years. Compensation: 1989 salary & bonus, $1,062,000; ownership, 66,000 shares. ▶ Financial wizard, cost-cutting ace. Just when he thought a turnaround was getting near, industry nosedives. Now, he's retrenching again, continuing risk-averse moves and stressing fee income. Just lost president to problem-ridden First Fidelity. Bright spot is retail business, bolstered by recent acquisition of 54 Meritor branches.

FOOTNOTES APPEAR ON PAGE 292



Some engineering challenges are real monsters

Innovative engineer Doug Malewicki envisioned a unique and challenging assignment. With Parker's cooperation, he created a monster – an electrohydro-mechanical monster named Robosaurus.

Robosaurus demolishes cars and thrills auto extravaganza crowds. He raises them 50 feet from the ground. He bites them in half, rips off their roofs, crushes them in his monster-sized hands before hurling the mangled carcasses to the ground.

Getting this fire-breathing, fully-movable, car-crushing monster operational called for the contributions of eight Parker divisions.

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This type of hands-on involvement exemplifies the Company's partnerships with industrial, automotive, and aerospace manufacturers the world over – partnerships which have helped make Parker a $2.45 billion-per-year leader in the motion-control industry.

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MELVILLE

STANLEY P. GOLDSTEIN

Rye, N. Y. *914-925-4000*

SALES: *$7.6 bil.* PROFITS: *$398 mil.*

MARKET VALUE: *$4.3 bil.*

▶ Born 6/5/34, Woonsocket, R. I.; BS (econ.), Wharton, 1955. Career path–merchandising/marketing; tenure–21 years, CEO 4 years. Compensation: 1989 salary & bonus, $1,189,000; ownership, 200,000 shares. ▶ Doesn't hit many home runs but gets on base a lot. Operates 14 retail specialty divisions from Marshall's off-price apparel to CVS drugstores. He's kept free of debt in overleveraged industry, so he can take his pick of acquisitions. Profits climbing steadily despite dismal retail climate. Berths a boat on Martha's Vineyard.

MENTOR GRAPHICS

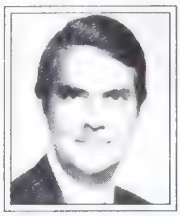
THOMAS H. BRUGGERE

Beaverton, Ore. *503-626-7000*

SALES: *$380 mil.* PROFITS: *$45 mil.*

MARKET VALUE: *$586 mil.*

▶ Born 2/18/46, Berkeley, Calif.; BS (mathematics), U. of Calif. at Santa Barbara, 1968; MS (computer sci.), U. of Wis., 1972; MBA, Pepperdine, 1975. Career path–engineering/technical; tenure–9 years, CEO 9 years. Compensation: 1989 salary & bonus, $445,000; ownership, 323,000 direct, 3,000 indirect shares. ▶ String of 32 up quarters ended. Still leader in electronic-design automation but faces costs of adapting software to Sun workstation, developing package to link all his products. Expects rebound next year. Education activist with eight handicap.



MERCANTILE BANCORPORATION

THOMAS H. JACOBSEN

St. Louis, Mo. *314-425-2525*

SALES: *$745 mil.* PROFITS: *$1 mil.*

MARKET VALUE: *$361 mil.*

▶ Born 10/15/39, Chicago, Ill.; BS (econ.), Lake Forest, 1963; MBA (finance), U. of Chicago, 1968. Career path–banking; tenure–2 years, CEO 2 years. Compensation: 1989 salary & bonus, $468,000; ownership, 20,000 direct, 5,000 indirect shares. ▶ Newcomer (from Florida's Barnett Banks) he's done the expected: trimmed staff, cut costs, pruned portfolio. He wants to focus on nine states in lower Midwest–partly by default. His predecessor lost out to Boatmen's Bankshares in bid for Centerre Bancorp, so there is tough competition at home.

MERCANTILE BANKSHARES

HENRY FURLONG BALDWIN

Baltimore, Md. *301-237-5900*

SALES: *$433 mil.* PROFITS: *$62 mil.*

MARKET VALUE: *$520 mil.*

▶ Born 1/15/32, Baltimore, Md.; AB (history), Princeton, 1954. Career path–finance/accounting; tenure–34 years, CEO 14 years. Compensation: 1989 salary & bonus, $872,000; ownership, 192,000 shares. ▶ Likes to hunt birds–and banks. Bags nearby rural banks with little competition and powerful local names. Recent trophies include $200 million Baltimore Trust and $127 million Eastern Shore Farmers & Merchants. Conservative style–high credit standards and sticking to markets he knows–keeps bank growing despite industry woes.

MERCANTILE STORES

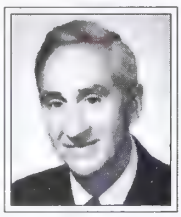
DAVID R. HUHN

Fairfield, Ohio *513-860-8000*

SALES: *$2.3 bil.* PROFITS: *$130 mil.*

MARKET VALUE: *$1.1 bil.*

▶ Born 10/18/37, Cincinnati, Ohio; BS (economics), Xavier, 1959. Career path–merchandising/marketing; tenure–31 years, CEO 1 year. Compensation: 1989 salary & bonus, $559,000; ownership, 3,000 shares. ▶ Runs this department-store chain by the book: owns midlevel outlets in midsize cities where they can be No. 1 or close to it. Examples: McAlpin's in Cincinnati (his route to top), Joslins in Denver, Castner Knott in Nashville. He's expanding–but cautiously. Possible trouble from Roger Milliken, major stockholder, who could decide to sell out.



MERCK

P. ROY VAGELOS

Rahway, N. J. *201-594-4000*

SALES: *$6.6 bil.* PROFITS: *$1.5 bil.*

MARKET VALUE: *$31.9 bil.*

▶ Born 10/8/29, Westfield, N. J.; AB (chem.), U. of Pa., 1950; MD, Columbia U. Coll. of Phys. & Surgeons, 1954. Career path–biomedical research; tenure–15 years, CEO 5 years. Compensation: 1989 salary & bonus, $2,340,000[1]; ownership, 224,000 direct, 12,000 indirect shares. ▶ Weekends are for sculling, playing tennis with passion. Reserves same passion for R&D spending, which keeps drug company booming. Targeting a broad range of ailments, including AIDS. Bad news: withdrawal of new diabetes-complications drug Prodiax.

MERCURY FINANCE

JOHN N. BRINCAT

Northbrook, Ill. *708-564-3720*

SALES: *$73 mil.* PROFITS: *$17 mil.*

MARKET VALUE: *$293 mil.*

▶ Born 4/7/36, Brooklyn, N. Y. Career path–finance/accounting; tenure–7 years, CEO 7 years. Compensation: 1989 salary & bonus, $550,000; ownership, 34,000 shares.[7] ▶ Ex-Marine's specialty is marketing consumer-finance services to military personnel. He's aiming at boosting income and receivables [illegible], and now that company is spun off from First Illi[illegible] holding company, he's free to look into insurance and [illegible] brokerage. Looking over his shoulder is controversial investor Daniel J. Terra, a 25% shareholder.

MEREDITH

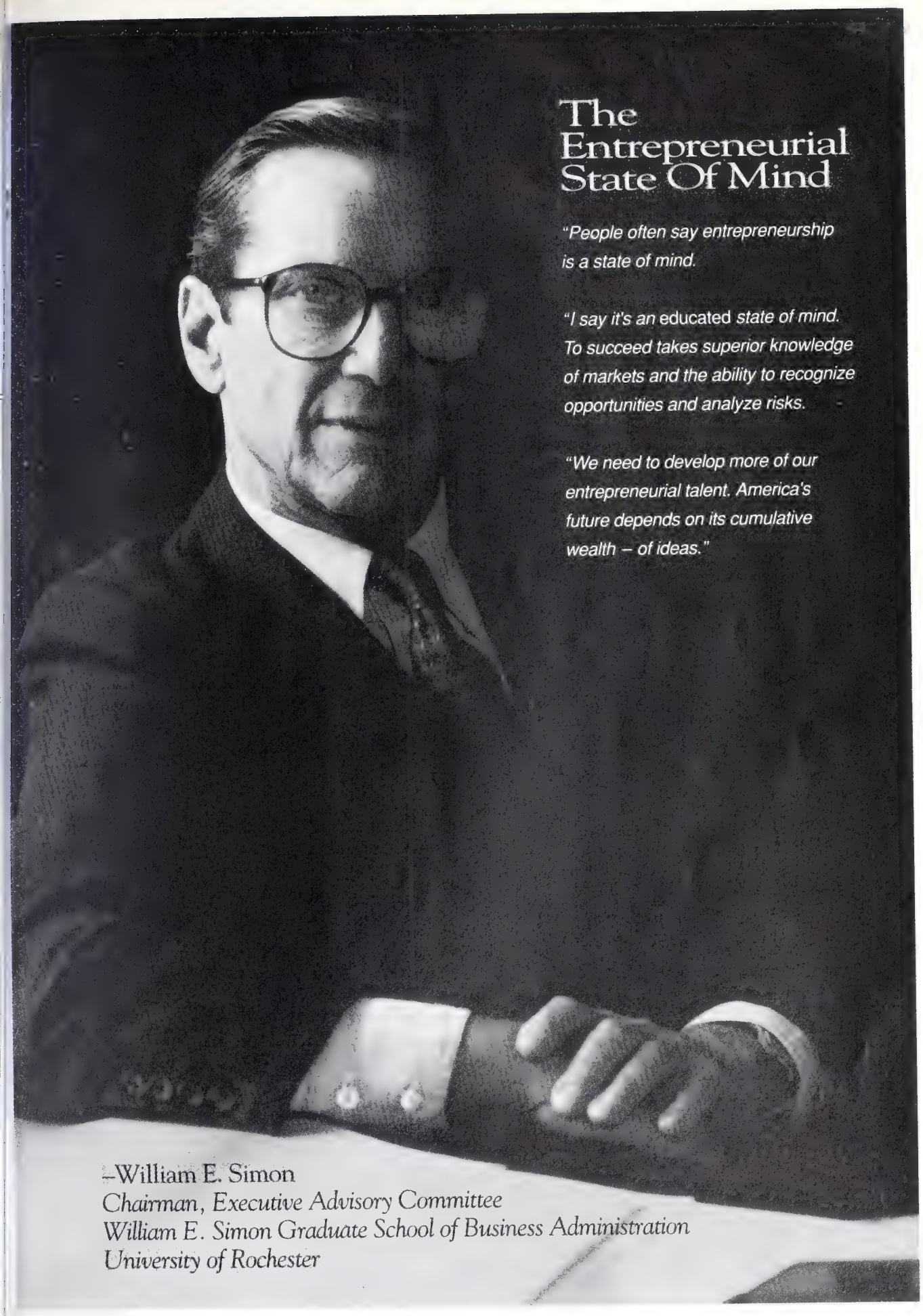
JACK D. REHM

Des Moines, Iowa *515-284-3000*

SALES: *$792 mil.* PROFITS: *$33 mil.*

MARKET VALUE: *$441 mil.*

▶ Born 10/10/32, Yonkers, N. Y.; BS (marketing, bus. admin.), Holy Cross, 1954. Career path–merchandising/marketing; tenure–28 years, CEO 2 years. Compensation: 1989 salary & bonus, $592,000[1]; ownership, 16,000 direct, 6,000 indirect shares. ▶ Focusing more on basic magazine business by selling printing venture, money-losing TV ad sales agency. May wish he was out of other diversifications. Residential real estate business pinched by markets on both coasts; relocation service faces Justice Dept. suit charging fraud in relocating federal employees.


The Entrepreneurial State Of Mind
"People often say entrepreneurship is a state of mind.
"I say it's an educated state of mind. To succeed takes superior knowledge of markets and the ability to recognize opportunities and analyze risks.
"We need to develop more of our entrepreneurial talent. America's future depends on its cumulative wealth – of ideas."
–William E. Simon
Chairman, Executive Advisory Committee
William E. Simon Graduate School of Business Administration
University of Rochester

MERRILL LYNCH

New York, N. Y. *212-449-1000*

SALES: *$11.3 bil.* LOSS: *$217 mil.*

MARKET VALUE: *$2.3 bil.*

▶ BORN 1/13/28, WILLIAMSPORT, PA.; BS (BUSINESS ADMIN.), PENN. STATE, 1948. CAREER PATH—MANAGEMENT; TENURE—42 YEARS, CEO 6 YEARS. COMPENSATION: 1989 SALARY & BONUS, $1,550,000; OWNERSHIP, 290,000 SHARES. ▶ DAD WAS A MERRILL BROKER, SO HE FEELS PARTICULARLY CLOSE TO COMPANY, INDUSTRY. ENJOYS AN ACTIVE PUBLIC ROLE AND HEADED SEARCH FOR A NEW NEW YORK STOCK EXCHANGE CHIEF. HIS FIRM, WALL STREET'S LARGEST, DOMINATES CORPORATE UNDERWRITING WITH $26 BILLION OF NEW ISSUES AND 16% MARKET SHARE (HOT PRODUCT: ZERO-COUPON CONVERTIBLES). BUT THESE ARE HARD TIMES IN THE SECURITIES INDUSTRY. HE'S LAID OFF 3,000 EMPLOYEES, TAKEN MORE THAN $600 MILLION IN WRITEOFFS, CHARGES. HOPES ALL THIS WILL YIELD ANNUAL SAVINGS OF $100 MILLION. AGGRESSIVE FUNDRAISER FOR HIS ALMA MATER, PENN STATE.

MERIDIAN BANCORP

SAMUEL A. MCCULLOUGH

Reading, Pa. *215-320-2000*

SALES: *$1.2 bil.* PROFITS: *$91 mil.*

MARKET VALUE: *$601 mil.*

▶ Born 11/10/38, Pittsburgh, Pa.; BS (business admin.), U. of Pittsburgh, 1960. Career path–finance/accounting; tenure–15 years, CEO 12 years. Compensation: 1989 salary & bonus, $591,000; ownership, 7,000 shares. ▶ Regional real estate collapse is hitting him, too, as loan-loss reserves rise. But this aggressive acquirer hasn't stopped, with deal for defunct S&L. Diversifications–title insurance, merchant banking, discount broker–aren't showing much profit. Active in Boy Scouts, though he has five daughters, no sons.

MERRY-GO-ROUND ENTERPRISES

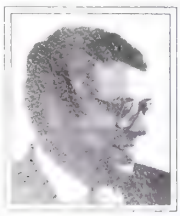
MICHAEL DENNIS SULLIVAN

Joppa, Md. *301-538-1000*

SALES: *$479 mil.* PROFITS: *$22 mil.*

MARKET VALUE: *$413 mil.*

▶ Born 11/15/39, Chicago, Ill.; BS, Loyola, 1961. Career path–finance/accounting; tenure–16 years, CEO 8 years. Compensation: 1989 salary & bonus, $670,000; ownership, 558,000 direct, 14,000 indirect shares. ▶ Has he still got the brass ring? Big sales by a couple of major shareholders at midyear sent stock of his chain of mall fashion stores for male teens into free fall. But his concept is still hot, and he's in market for acquisitions. Likes to experiment. Would you believe "Boogie's Diner," which pairs restaurants with high-priced clothing departments?



METRO MOBILE CTS

GEORGE LYLE LINDEMANN

New York, N. Y. *212-605-0800*

SALES: *$111 mil.* LOSS: *$47 mil.*

MARKET VALUE: *$738 mil.*

▶ Born 3/26/36, New York, N. Y.; BS (econ., finance), Wharton, 1958. Career path–prod./mfg.; tenure–11 years, CEO 7 years. Compensation: 1989 salary & bonus, [illegible] ownership, 3,300,000 indirect shares.[7] ▶ Wealthy entrepreneur's into cellular phones, but he's happy to make money elsewhere. A good thing, too: His venture into propane distribution, headed by son Adam, contributed 44% of revenue and 100% of profit in first half. But main assets are cellular properties in New England, Southwest, Carolinas, where losses narrow.

MEYER (FRED)

FREDERICK M. STEVENS

Portland, Ore. *503-232-8844*

SALES: *$2.3 bil.* LOSS: *$7 mil.*

MARKET VALUE: *$326 mil.*

▶ Born 10/8/36, Jonesboro, Ark.; BS, La. State, 1959. Career path–merchandising/marketing; tenure–2 years, CEO 2 years. Compensation: 1989 salary & bonus, $583,000; ownership, 24,000 shares.[8] ▶ His superstores (dubbed "Freddie's" on their Northwest home turf) carry everything from groceries to building supplies. But chain weakened by 1981 KKR buyout, longtime lack of tough competition. Now, he must fight Target, Cub Foods. So he's decentralizing–computer systems, store management, lots more. He's a K mart alumnus.

We're simplifying two mysteries of the universe: the earth's environment and your charge account.

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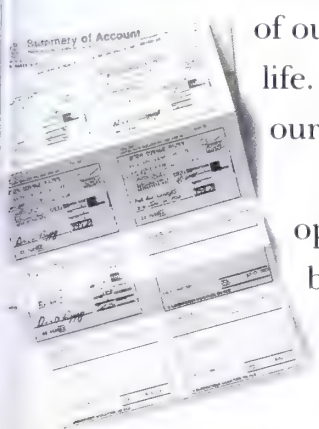
Soon the earth will become easier to read, too. Scientists will get detailed pictures of our land, air, water, and life. So they can see where our planet is going.



Technologies developed by TRW help make both projects possible. In space, TRW instruments will gather raw data. Then TRW ground systems can organize and store the data. Earth scientists will have easy access to information that can help them predict environmental changes like global warming and ozone depletion.

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MGM GRAND

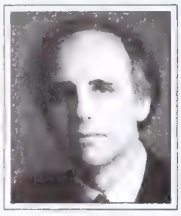
FRED BENNINGER

Culver City, Calif. *213-280-6550*

SALES: *$192 mil.* PROFITS: *$26 mil.*

MARKET VALUE: *$297 mil.*

▶ Born 3/20/17, Gunsberg, Germany; BCS (commercial science, USC, 1941. Career path–finance/accounting; tenure–23 years, CEO 23 years. Compensation: 1989 salary & bonus, $410,000; ownership, 3,000 shares. ▶ Longtime right-hand-man for 80% owner Kirk Kerkorian. Company sold MGM Grand hotel but retains right to name. Current holdings include luxury coast-to-coast airline, 155-acre Las Vegas tract (site of proposed theme park), Desert Inn casino. His boss is a trader, so expect lots of asset-juggling. He likes fishing, deep-sea variety.



MGM/UA COMMUNICATIONS

JEFFREY C. BARBAKOW

Culver City, Calif. *213-280-6000*

SALES: *$877 mil.* LOSS: *$75 mil.*

MARKET VALUE: *$740 mil.*

▶ Born 4/3/44, Los Angeles, Calif.; BS (ind. design), San Jose State, 1966; MBA, USC, 1968. Career path–finance/accounting, investment banking; tenure–2 years, CEO 2 years. Compensation: 1989 salary & bonus, $1,000,000; ownership, 205,000 shares. ▶ His role: Sell this film studio for majority owner Kirk Kerkorian. One deal fell through last year. Another, with Italian moviemaker Giancarlo Parretti, is scheduled to close soon–if Parretti can line up a partner to replace Time Warner. The buyer gets a 950-film library with James Bond series.

MICHIGAN NATIONAL

ROBERT J. MYLOD

Farmington Hills, Mich. *313-473-3000*

SALES: *$1.5 bil.* PROFITS: *$179 mil.*

MARKET VALUE: *$367 mil.*

▶ Born 11/21/39, Brooklyn, N. Y.; BA, St. John's, 1961. Career path–finance/accounting; tenure–6 years, CEO 6 years. Compensation: 1989 salary & bonus, $919,000; ownership, 14,000 direct, 1,000 indirect shares. ▶ Problem loans are rising, and no wonder. His portfolio is heavy with real estate loans. He's focusing on high-margin consumer lines, despite last year's sale of lucrative credit-card business. On tap is a debit card sporting the Visa logo. Expects lots of mortgage business as S&Ls become less important competitors to him.

MICRON TECHNOLOGY

JOSEPH L. PARKINSON

Boise, Idaho *208-368-4000*

SALES: *$333 mil.* PROFITS: *$5 mil.*

MARKET VALUE: *$330 mil.*

▶ Born 8/6/45, San Antonio, Tex.; BA, Columbia, 1967; JD, Tulane Law, 1971; LLM (taxation), NYU Law, 1972. Career path–legal; tenure–12 years, CEO 5 years. Compensation: 1989 salary & bonus, $962,000; ownership, 25,000 shares. ▶ Lawyer who joined with twin brother, Ward, to found chip-maker. Hanging in there–barely–against fierce competition from Japan, Korea. Profits tanking this year. On the plus side, new plant is open, productivity improving. Seeking higher-margin businesses. Loves outdoors, tending his ranch, hunting.

MICROSOFT

WILLIAM H. GATES III

Redmond, Wash. *206-882-8080*

SALES: *$804 mil.* PROFITS: *$171 mil.*

MARKET VALUE: *$6.9 bil.*

▶ Born 10/28/55, Seattle, Wash.; attended Harvard. Career path–engineering/technical; tenure–15 years, CEO 15 years. Compensation: 1989 salary & bonus, $191,000; ownership, 40,351,000 shares. ▶ Ex-programmer heads largest PC software house. Half of revenues come from MS/DOS, PC operating system. New Windows product a hit, Excel gaining against Lotus 1-2-3. Sees major opportunity in networks where he's investing $45 million. Spending personal cash, too: Exotic Porsche, 50,000 sq. ft. house with underground parking for 54 cars.

MIDLANTIC

ROBERT VAN BUREN

Edison, N. J. *201-321-8000*

SALES: *$2.3 bil.* PROFITS: *$206 mil.*

MARKET VALUE: *$395 mil.*

▶ Born 4/23/25, Plainfield, N. J.; AB (econ.), Washington & Lee, 1950; MBA, NYU, 1956. Career path–finance/accounting; tenure–19 years, CEO 13 years. Compensation: 1989 salary & bonus, $1,080,000; ownership, 92,000 direct, 12,000 indirect shares. ▶ Called his team "the hungry bankers," but they're now on a diet. Troubled real estate markets in his mid-Atlantic lending area give him high level of bad loans. One customer: Donald Trump. So now, he's selling businesses. For fun–hard to come by these days–he's off to Jersey shore or Florida flat.

MIDWEST ENERGY

RUSSELL E. CHRISTIANSEN

Sioux City, Iowa *712-277-7400*

SALES: *$573 mil.* PROFITS: *$54 mil.*

MARKET VALUE: *$426 mil.*

▶ Born 5/19/35, Jefferson, S. D.; BS (indust. eng.), S. D. State, 1959. Career path–engineering/technical; tenure–31 years, CEO 4 years. Compensation: 1989 salary & bonus, $355,000; ownership, 7,000 shares.[7] ▶ He'll become vice-chairman of new Midwest Resources if feds approve pending merger with Iowa Resources. Logical combination of two utilities: Iowa needs capacity; Midwest has it. He'll take over in two years, succeeding scheduled first chairman, Mark Putney, now Iowa's CEO. State regulators have already O. K.'d plan. FTC asking for more data.

MILLER (HERMAN)

RICHARD H. RUCH

Zeeland, Mich. *616-772-3300*

SALES: *$793 mil.* PROFITS: *$41 mil.*

MARKET VALUE: *$472 mil.*

▶ Born 4/15/30, Plymouth, Ind.; BA (econ., accounting), Mich. State, 1952. Career path–finance/accounting, production/manufacturing; tenure–35 years, CEO 3 years. Compensation: 1989 salary & bonus, $446,000; ownership, 97,000 shares. ▶ Fan of participatory management keeps furniture maker prospering while rivals struggle. Key is galvanized distribution network. New design center, strategic acquisitions should help him face competition from No. 1 Steelcase. Keeps in shape by organizing backyard ballgames for neighborhood kids.

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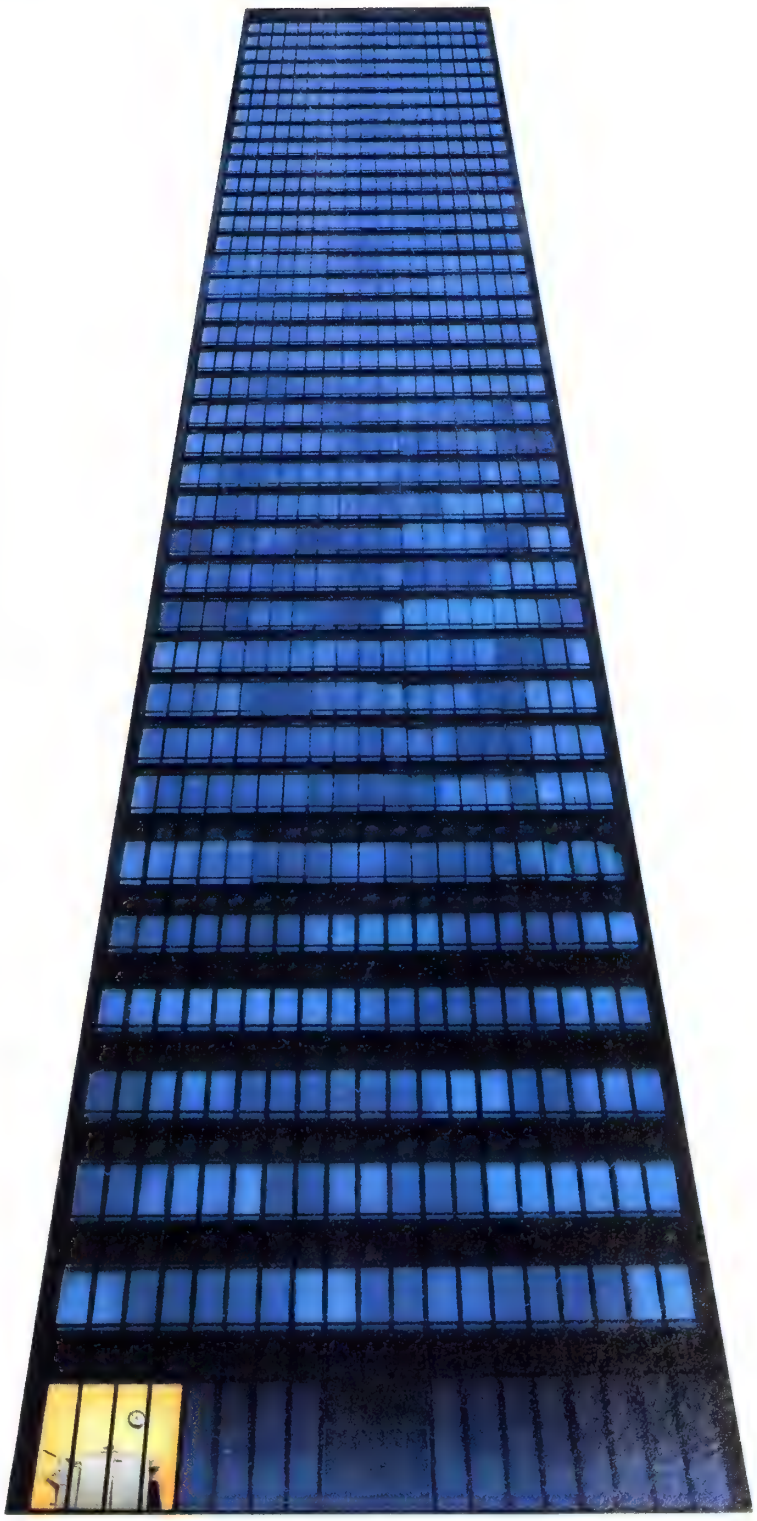

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MILLIPORE

JOHN A. GILMARTIN

Bedford, Mass. *617-275-9200*

SALES: *$658 mil.* PROFITS: *$53 mil.*

MARKET VALUE: *$826 mil.*

▶ Born 3/29/42, Hackensack, N. J.; BS (finance), Penn. State, 1965; MBA (gen. mgmt.), Harvard, 1967. Career path–finance/accounting; tenure–11 years, CEO 4 years. Compensation: 1989 salary & bonus, $584,000; ownership, 77,000 shares. ▶ Biotech firms can't get enough of his water purification membranes, and the demand is up 20%. But sales of analytical instruments, the other big chunk of his business, are sluggish at best. So he's into cost-cutting and belt-tightening. He spun off process water division late last year.

MINE SAFETY APPLIANCES

L. N. SHORT JR.

Pittsburgh, Pa. *412-967-3000*

SALES: *$415 mil.* PROFITS: *$28 mil.*

MARKET VALUE: *$326 mil.*

▶ Born 8/11/26, Pittsburgh, Pa.; BA (econ.) Cornell, 1947; MBA (business), Harvard, 1956. Career path–merchandising/marketing; tenure–43 years, CEO 5 years. Compensation: 1989 salary & bonus, $495,000; ownership, 32,000 shares. ▶ Built foreign sales of safety gear; overseas now 50% of revenues. Well-positioned in Europe. Sees domestic growth for fire department respirators. Military sales of gas masks and protective clothing also look better than before the Iraqi crisis. Likes details, says big-picture CEOs can be fooled too easily.

MINNESOTA MINING & MFG.

ALLEN F. JACOBSON

St. Paul, Minn. *612-733-1110*

SALES: *$12 bil.* PROFITS: *$1.2 bil.*

MARKET VALUE: *$17.5 bil.*

▶ Born 10/7/26, Omaha, Neb.; BS (eng.), Iowa State, 1947. Career path–prod./mfg., mgmt.; tenure–43 years, CEO 5 years. Compensation: 1989 salary & bonus, $1,179,000; ownership, 9,000 direct, 3,000 indirect shares. ▶ Retiring next year–and likely to go out in style. Benefiting from international business, with double-digit growth for past three years, and steady flow of new products. Such innovations as mosquito repellant, composites for the military now account for 30% of sales. To relax, he's visited exotic locales: Galapagos, China.

MINNESOTA POWER

AREND J. SANDBULTE

Duluth, Minn. *218-722-2641*

SALES: *$464 mil.* PROFITS: *$89 mil.*

MARKET VALUE: *$675 mil.*

▶ Born 12/9/33, Sioux Center, Iowa; BSEE, Iowa State, 1959; MBA, U. of Minn., 1966. Career path–finance/accounting; tenure–26 years, CEO 2 years. Compensation: 1989 salary & bonus, $445,000; ownership, 13,000 shares. ▶ He gets half his revenue from six taconite ore operations, so he wants to diversify. Already, joint-venture mill is top maker of "supercalendered" shiny paper stock for ad inserts, junk mail. Drive to get customers to buy shares pays off. Annual meeting attracted 3,600–lured by lunch, harbor cruise, polka band.

MIPS COMPUTER SYSTEMS

ROBERT C. MILLER

Sunnyvale, Calif. *408-720-1700*

SALES: *$102 mil.* PROFITS: *$7 mil.*

MARKET VALUE: *$305 mil.*

▶ Born 9/23/43, New York, N. Y.; BS (mech. eng.), Bucknell, 1965; MS (thermodynamics), Stanford, 1966. Career path–engineering/technical, mgmt.; tenure–3 years, CEO 3 years. Compensation: 1989 salary & bonus, $388,000; ownership, 108,000 shares. ▶ Industry vet brought maker of speedy RISC microprocessors back from near-dead. Dropped chipmaking, focused on selling computers to Unisys, DEC, others, who repackage them under their own names. Went public with $300 million offering. Not much time left for deep-sea fishing and tennis.

MITCHELL ENERGY & DEVELOPMENT

GEORGE P. MITCHELL

The Woodlands, Tex. *713-327-5500*

SALES: *$658 mil.* PROFITS: *$30 mil.*

MARKET VALUE: *$1 bil.*

▶ Born 5/21/19, Galveston, Tex.; BS (petro. eng., geology), Tex. A&M, 1940. Career path–engineering/technical; tenure–44 years, CEO 31 years. Compensation: 1989 salary & bonus, $531,000; ownership, 28,461,000 shares. ▶ Keeps list of 1,000 Texas wells he'd like to drill–if energy prices stay up. Most revenues come from gas transportation, processing, but he's also major developer of Houston residential real estate via 25,000-acre Woodlands community. May expand in commercial sector. Son of Greek immigrant, active Galveston preservationist.

MNC FINANCIAL

ALFRED LERNER

Baltimore, Md. *301-244-5000*

SALES: *$2.4 bil.* PROFITS: *$213 mil.*

MARKET VALUE: *$657 mil.*

▶ Born 5/8/33, New York, N. Y.; BA, Columbia, 1965. Career path–real estate, finance/accounting; tenure–1 month, CEO 1 month. Compensation: 1989 salary & bonus, NA[6]; ownership, 103,000 direct, 7,254,000 indirect shares. ▶ In a rough year for state's biggest banking group, major stockholder lost patience and took the helm himself, after predecessor abruptly took early retirement–at 59. Cleveland investor and developer, no stranger to banking, must pick up pieces as earnings slipped into red in second quarter. He'll have to hustle to raise new cash.

MOBIL

ALLEN E. MURRAY

Fairfax, Va. *703-846-3000*

SALES: *$50.2 bil.* PROFITS: *$1.8 bil.*

MARKET VALUE: *$26 bil.*

▶ Born 3/5/29, New York, N. Y.; BS (business admin.), NYU, 1956. Career path–finance/accounting; tenure–38 years, CEO 5 years. Compensation: 1989 salary & bonus, $1,675,000; ownership, 110,000 shares. ▶ The checks keep coming: He's increased dividends three years in a row. Boosting capital spending by 50%, too. Texas refinery upgrade is major project. Embraces environmental issues. Headed industry effort to improve oil spill responses. But his Earth Day bid to market "degradable" Hefty trash bags backfired.

THE CORPORATE ELITE

MOLEX

FREDERICK A. KREHBIEL

Lisle, Ill. *708-969-4550*

SALES: *$572 mil.* PROFITS: *$58 mil.*

MARKET VALUE: *$1 bil.*

▶ Born 6/2/41, Hinsdale, Ill.; BA (polit. sci.), Lake Forest, 1963. Career path–merchandising/marketing, intl.; tenure–26 years, CEO 2 years. Compensation: 1989 salary & bonus, $332,000; ownership, 4,168,000 direct, 62,000 indirect shares. ▶ He can't dodge sluggish demand for electrical connectors, but cost controls keep margins intact. Now has 20% higher order backlog, so things should pick up. Along with founder father, Chairman John, and brother, President John Jr., has tight family control. Wangled exclusive license for new conductive material.

MONSANTO

RICHARD J. MAHONEY

St. Louis, Mo. *314-694-1000*

SALES: *$8.7 bil.* PROFITS: *$679 mil.*

MARKET VALUE: *$5.5 bil.*

▶ Born 1/30/34, Springfield, Mass.; BS (chem.), U. of Mass., 1955. Career path–merchandising/marketing, administration; tenure–28 years, CEO 7 years. Compensation: 1989 salary & bonus, $1,317,000; ownership, 127,000 direct, 83,000 indirect shares. ▶ A gardener who keeps a grassy area with bird feeder outside his office window, he also likes to grow new products. No wonder. Patents expire soon on Nutrasweet, Roundup herbicide; response so-so to Simplesse fat substitute. Will add bovine growth stimulant, superfast crabgrass killer.

MONTANA POWER

W. PAUL SCHMECHEL

Butte, Mont. *406-723-5421*

SALES: *$452 mil.* PROFITS: *$74 mil.*

MARKET VALUE: *$912 mil.*

▶ Born 6/26/27, Carrington, N. D.; BS (elect. eng.), Mont. State, 1953. Career path–engineering/technical, production/manufacturing; tenure–37 years, CEO 7 years. Compensation: 1989 salary & bonus, $267,000; ownership, 16,000 direct, 2,000 indirect shares. ▶ Finally has troubled Colstrip plant off his back, with $20 million write-off. Now looking for growth. Selling gas to Texas cogeneration project. Clean-air laws should be boon for his low-sulfur coal. Hoping to sell storage and transport services to big customers who don't buy his gas.

MORGAN (J. P.)

DENNIS WEATHERSTONE

New York, N. Y. *212-483-2323*

SALES: *$10.4 bil.* LOSS: *$1.3 bil.*

MARKET VALUE: *$6.1 bil.*

▶ Born 11/29/30, London, England; attended Northwestern Poly. Career path–finance/accounting; tenure–44 years, CEO 9 months. Compensation: 1989 salary & bonus, $1,450,000; ownership, 40,000 shares. ▶ Make that *Sir* Dennis. Handpicked successor to Lewis Preston will be knighted in December. Boasts best loan portfolio among money center banks. How good? Nonperforming loans actually falling. Still, times are hard because of lackluster investment banking climate. Career Morgan man joined predecessor firm in London at age 16.

MORGAN STANLEY GROUP

S. PARKER GILBERT

New York, N. Y. *212-703-4000*

SALES: *$5.8 bil.* PROFITS: *$443 mil.*

MARKET VALUE: *$2 bil.*

▶ Born 11/15/33, New York, N. Y.; BA (history), Yale, 1956. Career path–investment banking; tenure–30 years, CEO 7 years. Compensation: 1989 salary & bonus, $5,475,000; ownership, 1,140,000 shares. ▶ Calling it a career at year's end after expanding role of Street's premier investment banker in M&A, merchant banking. Successor is President Dick Fisher. White-shoe firm showing some scuff marks as second-quarter income dips. Retirement of second-generation Morgan man expected. He'll fish, golf at South Carolina second home.

MORRISON

ERNEST EUGENE BISHOP

Mobile, Ala. *205-344-3000*

SALES: *$825 mil.* PROFITS: *$32 mil.*

MARKET VALUE: *$298 mil.*

▶ Born 5/5/30, Swainsboro, Ga. Career path–food services; tenure–43 years, CEO 9 years. Compensation: 1989 salary & bonus, $498,000[7]; ownership, 141,000 direct, 3,000 indirect shares.[7] ▶ Come and get it: Profits in his cafeteria business have been sliding. The South is saturated with cafeterias, and Northerners aren't biting. So he's cutting costs and beefing up promotions to revive the business. Expansion into spiffier stores such as L&M Seafood Grills, Ruby Tuesday's, other chains is helping. For fun, he takes to the Gulf of Mexico for fishing.

MORRISON KNUDSEN

WILLIAM AGEE

Boise, Idaho *208-386-5000*

SALES: *$2.2 bil.* PROFITS: *$32 mil.*

MARKET VALUE: *$528 mil.*

▶ Born 1/5/38, Boise, Idaho; BS (business), U. of Idaho, 1960; MBA, Harvard, 1963. Career path–finance/accounting, management; tenure–2 years, CEO 2 years. Compensation: 1989 salary & bonus, $857,000; ownership, 86,000 shares. ▶ Left Cape Cod and came back to hometown to fix struggling construction outfit. He's only halfway there: sold biggest money-losers, shed $250 million in debt, got back into black. Now pushing into waste management, gold mining, bid to create first U. S. high-speed rail line, but so far has little profit to show for it.

MORTON INTERNATIONAL

CHARLES STANLEY LOCKE

Chicago, Ill. *312-807-2000*

SALES: *$1.4 bil.* PROFITS: *$97 mil.*

MARKET VALUE: *$2 bil.*

▶ Born 3/5/29, Laurel, Miss.; BA (business, 1952), MS (accounting, 1955), U. of Miss. Career path–finance/accounting; tenure–15 years, CEO 10 years. Compensation: 1989 salary & bonus, $659,000; ownership, 94,000 shares. ▶ It seemed like a good idea at the time. Last year he split off specialty chemicals, salt, airbags company from defense contractor Thiokol. The thinking: troubles in aerospace division overshadowed other businesses. Yet Morton's stock hasn't soared; its performance has suffered from a downturn in chemicals.

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MOTOROLA

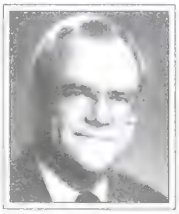
U.C. Fisher

Schaumburg, Ill. *708-397-5000*

SALES: *$9.6 bil.* PROFITS: *$498 mil.*

MARKET VALUE: *$9.5 bil.*

▶ BORN 11/30/40, ANNA, ILL.; BS, U. OF ILL., 1962; MS (ENG., 1964), PHD (APPLIED MATH., 1966), BROWN. CAREER PATH—ENGINEERING/TECHNICAL, PRODUCTION/MANUFACTURING; TENURE—14 YEARS, CEO 3 YEARS. COMPENSATION: 1989 SALARY & BONUS, $777,000; OWNERSHIP, 6,000 SHARES. ▶ VISIONARY, AMBITIOUS LEADER. WANTS TO BE TOPS WORLDWIDE IN WIRELESS COMMUNICATIONS, AND HE'S FIGURED OUT AN UNUSUAL WAY TO ACHIEVE HIS GOAL. HE'S POURING SUBSTANTIAL CELLULAR PHONE PROFITS INTO SEVERAL ALL-AMERICAN PARTNERSHIPS. WORKING WITH IBM ON LEADING-EDGE SEMICONDUCTORS AND TWO-WAY RADIOS THAT LINK UP DIRECTLY WITH COMPUTERS. WORKING WITH TRW ON HIGH-POWERED CHIP FOR THE MILITARY. WRANGLING WITH HITACHI IN PATENT DISPUTE OVER HIS POPULAR 68030 MICROPROCESSOR. ON HIS OWN TIME, HE'S INTO LANDSCAPING.



MULTIMEDIA

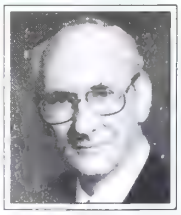
WALTER E. BARTLETT

Greenville, S. C. *803-298-4373*

SALES: *$463 mil.* PROFITS: *$39 mil.*

MARKET VALUE: *$707 mil.*

▶ Born 2/23/28, Marion, Ohio; AB (business admin.), Bowling Green, 1949. Career path–media sales; station mgmt.; tenure–15 years, CEO 6 years. Compensation: 1989 salary & bonus, $542,000; ownership, 55,000 shares. ▶ Former newspaper reporter helped launch Phil Donahue's TV show. Now, his company produces it and owns 62 newspapers, as well as radio, TV, cable outlets. But finance is his schtick: Just borrowed $1.1 million to buy back junk bonds from earlier recapitalization–creating a $350 million acquisition nest egg in the process.



MURPHY OIL

JACK WRAY MCNUTT

El Dorado, Ark. *501-862-6411*

SALES: *$1.7 bil.* PROFITS: *$47 mil.*

MARKET VALUE: *$1.5 bil.*

▶ Born 9/7/34, Norphlet, Ark.; BS (business admin.), Harding, 1956; MBA, Columbia, 1957. Career path–finance/accounting; tenure–33 years, CEO 3 years. Compensation: 1989 salary & bonus, $467,000; ownership, 46,000 shares. ▶ With two years of black ink behind him, the turnaround he worked so hard for seems solid, and oil's prospects are looking up as he steps up exploration. Finally gave up on offshore diving business, and he's trying to squeeze more out of real estate, timber. If you like to hunt, he's leasing rights on his unused land.

MYLAN LABORATORIES

ROY MCKNIGHT

Pittsburgh, Pa. *412-232-0100*

SALES: *$95 mil.* PROFITS: *$26 mil.*

MARKET VALUE: *$620 mil.*

▶ Born 3/13/21, Pittsburgh, Pa.; BS, Princeton, 1942. Career path–merchandising/marketing; tenure–14 years, CEO 14 years. Compensation: 1989 salary & bonus, $363,000; ownership, 1,150,000 shares. ▶ Two years ago he blew the whistle on firms bribing the FDA; now, he says the feds are aving him back by sitting on key drug applications. Not strictly erics anymore. Most attractive product, Eldepryl, retards inson's. He had both hips replaced last year but has no plans e. Hobby: marketing limited editions of sports prints.

NABORS INDUSTRIES

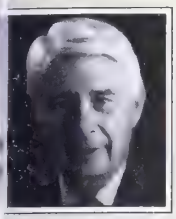
EUGENE M. ISENBERG

Houston, Tex. *713-874-0035*

SALES: *$74 mil.* PROFITS: *$5 mil.*

MARKET VALUE: *$328 mil.*

▶ Born 12/2/29, Chelsea, Mass.; BA (econ.), U. of Mass., 1950; MA, Princeton, 1952. Career path–merchandising/marketing, corporate planning; tenure–4 years, CEO 4 years. Compensation: 1989 salary & bonus, $829,000; ownership, 2,349,000 shares. ▶ Led bankrupt contract driller back to profitability. Built strong management team, restructured. Also made acquisitions abroad, including North Sea's Loffland Bros., which tripled number of his rigs. Stabilized operation leaves some time for opera, golf. Lives in Palm Beach, won't relocate.



NACCO INDUSTRIES

WARD SMITH

Cleveland, Ohio 216-752-1000

SALES: *$1.2 bil.* PROFITS: *$54 mil.*

MARKET VALUE: *$411 mil.*

▶ Born 9/13/30, Buffalo, N. Y.; AB (business), Harvard, 1952; JD, U. of Buffalo Law, 1955. Career path–legal, management; tenure–4 years, CEO 4 years. Compensation: 1989 salary & bonus, $620,000; ownership, 1,000 shares. ▶ Dealmaker turned North American Coal into maker of appliances, forklifts. Latest deal: Combining his Proctor-Silex with Hamilton Beach, ending up with 65% of No. 2 appliance maker. Wall Street has pummeled stock, leery of leverage, recession effect on forklift business. Pro bono, cutting losses at Cleveland Orchestra.

NALCO CHEMICAL

WORLEY H. CLARK

Naperville, Ill. 708-305-1000

SALES: *$1.1 bil.* PROFITS: *$120 mil.*

MARKET VALUE: *$1.9 bil.*

▶ Born 6/18/32, Big Stone Gap, Va.; BS (indust. eng.), N. C. State, 1956. Career path–sales; tenure–31 years, CEO 8 years. Compensation: 1989 salary & bonus, $881,000[1]; ownership, 18,000 direct, 12,000 indirect shares.[7] ▶ Around the office they call him "H." Key line is chemicals to treat water for power boilers, cooling systems. Now enlivening once-sleepy company with push into new areas such as auto spray-painting systems. Joint venture with British firm will sell new technology to reduce nitrogen oxides, primary cause of acid rain. Collects antique cars.

NASHUA

CHARLES E. CLOUGH

Nashua, N. H. 603-880-2323

SALES: *$549 mil.* PROFITS: *$18 mil.*

MARKET VALUE: *$342 mil.*

▶ Born 8/7/30, Concord, N. H.; AB, Dartmouth, 1952; MBA, Amos Tuck (Dartmouth), 1953. Career path–finance; tenure–33 years, CEO 8 years. Compensation: 1989 salary & bonus, $512,000; ownership, 56,000 shares. ▶ Serious, no-nonsense office-supplier avoids spotlight, shuns hype. Facing a hostile raid last year, he sold international office systems business, boosted dividend, bought back shares. Still looks like takeover bait, though. Investor Mario Gabelli thinks so, with 5.8% stake. Bikes, skis, snorkels–last year, on the Great Barrier Reef.

NATIONAL CITY

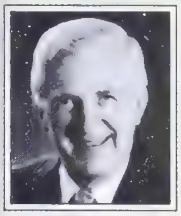
EDWARD B. BRANDON

Cleveland, Ohio 216-575-2000

SALES: *$2.5 bil.* PROFITS: *$263 mil.*

MARKET VALUE: *$1.9 bil.*

▶ Born 9/15/31, Davenport, Iowa; BS (econ.), Northwestern, 1953; MBA (banking, finance), Wharton, 1956. Career path–fin./accting., economics; tenure–34 years, CEO 3 years. Compensation: 1989 salary & bonus, $904,000; ownership, 14,000 direct, 10,000 indirect shares. ▶ He's increasing market share the old-fashioned way–he's buying it. Has already added Ohio and Kentucky S&Ls, looks to pick up more there and in Indiana. Got out of LDC loans, writing off $43.5 million. Hopes new computer, on-line in 1991, will cut costs. Collects stamps in spare time.



NATIONAL FUEL GAS

BERNARD JOSEPH KENNEDY

Buffalo, N. Y. 716-857-7000

SALES: *$856 mil.* PROFITS: *$52 mil.*

MARKET VALUE: *$639 mil.*

▶ Born 8/16/31, Niagara Falls, N. Y.; BA (liberal arts), Niagara, 1953; JD, U. of Mich. Law, 1958. Career path–legal; tenure–32 years, CEO 2 years. Compensation: 1989 salary & bonus, $358,000; ownership, 27,000 direct, 60,000 indirect shares. ▶ He's expanding his pipeline network to bring in more Canadian and Southwestern gas. But if the weather doesn't change he might not need it: Last year, earnings cooled as temperatures rose, his fifth such balmy year out of the past six. Active–and outspoken–in natural gas trade associations.

NATIONAL HEALTH LABORATORIES

ROBERT EUGENE DRAPER

La Jolla, Calif. 619-454-3314

SALES: *$402 mil.* PROFITS: *$65 mil.*

MARKET VALUE: *$1.3 bil.*

▶ Born 12/12/36, Yonkers, N. Y.; attended N. Tex. State, Pace. Career path–merchandising/marketing, finance/accounting, sales; tenure–19 years, CEO 16 years. Compensation: 1989 salary & bonus, $1,104,000; ownership, 66,000 shares.[7] ▶ Avid reader of classic philosophy doesn't really need its consolations. Earnings at clinical lab chain grew an annual average of 25% during past eight years. His prescription: A healthy dose of marketing to hospitals that order his tests, plus rigid cost diet. One rule: No one has a personal secretary–not even he.

NATIONAL INTERGROUP

HOWARD M. LOVE

Pittsburgh, Pa. 412-394-4100

SALES: *$2.8 bil.* LOSS: *$14 mil.*

MARKET VALUE: *$351 mil.*

▶ Born 4/5/30, Pittsburgh, Pa.; BA (liberal arts), Colgate, 1952; MBA, Harvard, 1956. Career path–production/manufacturing; tenure–34 years, CEO 11 years. Compensation: 1989 salary & bonus, $910,000; ownership, 33,000 direct, 7,000 indirect shares. ▶ Leaving in March. Son of prominent industrialist. Led steelmaker into drug distribution, thrifts, oil services. Strategy resulted in heavy losses in late 1980s. Centaur Partners organized shareholder effort to oust him, will now push liquidation. He's sold most interests in steel mills, aluminum.

NATIONAL MEDICAL ENTERPRISES

RICHARD KEITH EAMER

Santa Monica, Calif. 213-315-8000

SALES: *$3.7 bil.* PROFITS: *$192 mil.*

MARKET VALUE: *$2.8 bil.*

▶ Born 2/13/28, Long Beach, Calif.; BS (accounting), USC, 1955; LLB, USC Law, 1959. Career path–legal, health care; tenure–21 years, CEO 21 years. Compensation: 1989 salary & bonus, $1,879,000[1]; ownership, 1,230,000 shares. ▶ Last year, he decided to spin-off nursing homes. Now, expanding in psychiatric and rehabilitation facilities. Enjoys highest occupancy rates in its industry and record profits. Likes decentralized management and the outdoors. Owns five Labradors, breeds horses, stalks the savage salmon with a fly rod.

NATIONAL SEMICONDUCTOR

CHARLES E. SPORCK

Santa Clara, Calif. *408-721-5000*

SALES: *$1.6 bil.* LOSS: *$205 mil.*

MARKET VALUE: *$503 mil.*

▶ Born 11/15/27, Saranac Lake, N. Y.; BA (mech. eng.), Cornell, 1952. Career path–engineering/technical, production/manufacturing; tenure–24 years, CEO 24 years. Compensation: 1989 salary & bonus, $525,000; ownership, 740,000 shares. ▶ Runner in hard slog. Too much production in commodity-type chips; their skinny margins handed him a loss. With weak economy, price fights, this year looks even worse. Closing plants, laying off 2,000. He's ditched biggest problem units, focusing efforts on chips for networks, telecom, printers.

NATIONAL SERVICE INDUSTRIES

SIDNEY KIRSCHNER

Atlanta, Ga. *404-853-1000*

SALES: *$1.5 bil.* PROFITS: *$95 mil.*

MARKET VALUE: *$1.2 bil.*

▶ Born 12/24/34, Ottowa, Canada; BS (mining eng.), N. Mex. School of Mines, 1956. Career path–engineering/technical; tenure–17 years, CEO 3 years. Compensation: 1989 salary & bonus, $729,000; ownership, 35,000 direct, 22,000 indirect shares. ▶ Aggressive but prudent, in his words. Keeps expanding product lines in three core businesses: lighting equipment, textile rental, specialty chemicals. Made first non-U. S. acquisition–a Canadian lighting company. Expect more of same. Pushes decentralized management, minimal bureaucracy.

NAVISTAR INTERNATIONAL

JAMES C. COTTING

Chicago, Ill. *312-836-2000*

SALES: *$4.2 bil.* PROFITS: *$87 mil.*

MARKET VALUE: *$785 mil.*

▶ Born 10/15/33, Winchester, Mass.; BA (political sci.), Ohio State, 1955. Career path–finance/accounting; tenure–12 years, CEO 3 years. Compensation: 1989 salary & bonus, $450,000; ownership, 72,000 shares. ▶ Determined. Hit hard by slow truck demand, he's plowing $200 million into plants to improve productivity, boost margins. Trying to meet challenge of growing global competition by forming a partnership with a European truck maker, but to no avail. Nothing would help more than a rebound in truck sales, probably two or three years off.

NBD BANCORP

CHARLES THOMAS FISHER III

Detroit, Mich. *313-225-1000*

SALES: *$2.5 bil.* PROFITS: *$259 mil.*

MARKET VALUE: *$2 bil.*

▶ Born 11/22/29, Detroit, Mich.; AB (econ.), Georgetown, 1951; MBA, Harvard, 1953. Career path–finance/accounting; tenure–32 years, CEO 8 years. Compensation: 1989 salary & bonus, $1,210,000; ownership, 56,000 direct, 152,000 indirect shares. ▶ His big push into Chicago's working. He's built $3.3 billion asset base in the city, making his the No. 6 bank there. Also, consolidating Michigan banks to cut costs. This Fisher Body scion is a hardworking, conservative banker and the second-longest-serving outside director on GM's board.

NCH

LESTER A. LEVY

Irving, Tex. *214-438-0211*

SALES: *$628 mil.* PROFITS: *$40 mil.*

MARKET VALUE: *$402 mil.*

▶ Born 9/19/22, Dallas, Tex.; LLB, U. of Tex. Law, 1943. Career path–entrepreneur; tenure–44 years, CEO 25 years. Compensation: 1989 salary & bonus, $670,000; ownership, 259,000 direct, 1,294,000 indirect shares. ▶ Family-controlled company (two brothers also work there) produces, markets maintenance products from plumbing parts to solvents. Over 50% of sales are outside U. S., so Wall Streeters see shares as currency play. Troubles in Brazil hurt earnings, stock price. But he'll benefit from current currency slump. Private, family-oriented.

NCNB

HUGH L. MCCOLL JR.

Charlotte, N. C. *704-386-5000*

SALES: *$6 bil.* PROFITS: *$447 mil.*

MARKET VALUE: *$3.3 bil.*

▶ Born 6/18/35, Bennettsville, S. C.; BS (business admin.), U. of N. C., 1957. Career path–finance/accounting, banking; tenure–31 years, CEO 7 years. Compensation: 1989 salary & bonus, $1,500,000; ownership, 132,000 direct, 3,000 indirect shares. ▶ Could this hard-driving banker be slowing down? Over the past year, he's added locations in Texas to his 936-branch network, and he may win big if rising energy prices ignite state's economy. But he hasn't made a big acquisition. Instead, he's making management changes–perhaps lining up a successor.

NCR

CHARLES E. EXLEY JR.

Dayton, Ohio *513-445-5000*

SALES: *$6 bil.* PROFITS: *$412 mil.*

MARKET VALUE: *$4.2 bil.*

▶ Born 12/14/29, Detroit, Mich.; BA (econ.), Wesleyan, 1952; MBA, Columbia, 1954. Career path–finance/accounting; tenure–14 years, CEO 7 years. Compensation: 1989 salary & bonus, $1,166,000[1]; ownership, 1,000 direct, 139,000 indirect shares.[7] ▶ He's putting the company through yet another makeover. The new line is far less costly and more powerful than other midrange and large computers offered by competitors IBM and Digital Equipment. Now, he's taking the low-cost approach. A sailor, he likes big cigars, little sports cars.

NEIMAN-MARCUS GROUP

RICHARD ALAN SMITH

Chestnut Hill, Mass. *617-232-0760*

SALES: *$1.5 bil.* PROFITS: *$25 mil.*

MARKET VALUE: *$441 mil.*

▶ Born 11/1/24, Boston, Mass.; BS (business), Harvard, 1946. Career path–general management; tenure–3 years, CEO 3 years. Compensation: 1989 salary & bonus, NA[2]; ownership, NA.[8] ▶ His movie theater chain, General Cinema, owns 60%. Lost a key executive when store boss Allen Questrom left for troubled Federated. Neiman, Bergdorf Goodman, and Contempo Casuals chains holding onto revenue and profit gains despite sagging retail market. Investing heavily on remodelings, new stores, major expansion by Neiman's in Virginia.

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Barre, VT: Barre BOR Complex, Oct. 10-Oct. 13, 1990

West Warwick, RI: West Warwick Civic Center, Oct. 17-Oct. 20, 1990

Albany, NY: New Scotland Avenue Armory, Oct. 23-Oct. 26, 1990

Manchester, NH: New Hampshire Army National Guard State Armory, Oct. 31-Nov. 3, 1990

Augusta, ME: Augusta Civic Center, Nov. 6-Nov. 8, 1990

Hartford, CT: To be announced, Nov. 11-Nov. 15, 1990

Boston, MA: John B Hynes Veterans Memorial Convention Center, Nov. 19-Nov. 21, Nov. 23-Nov. 25, 1990

Harrisburg, PA: Pennsylvania Farm Show Complex, Nov. 28-Dec. 1, 1990

Dover, DE: To be announced, Dec. 3-Dec. 6, 1990

Baltimore, MD: Baltimore Convention Center, Dec. 9-Dec. 11, 1990

Morristown, NJ: Morristown Armory, Dec. 13-Dec. 17, 1990

Columbia, SC: South Carolina State Fairgrounds, Dec. 20-Dec. 23, 1990

Marietta, GA: Cobb County Civic Center, Jan. 3-Jan. 8, 1991

Raleigh, NC: Raleigh Civic and Convention Center, Jan. 13-Jan. 15, 1991

Montgomery, AL: Montgomery Civic Center, Jan. 21-Jan. 23, 1991

Tallahassee, FL: Tallahassee-Leon County Civic Center, Jan. 27-Jan 30, 1991

Nashville, TN: National Guard Armory, Feb. 1-Feb. 8, 1991

Baton Rouge, LA: Riverside Centroplex, Feb. 12-Feb. 16, 1991

Little Rock, AR: Rick's Armory, Feb. 20-Feb. 24, 1991

Dallas, TX: Fair Park, Mar. 2-Mar. 5, 1991

Houston, TX: Sam Houston Coliseum, Mar. 8-Mar. 12, 1991

Oklahoma City, OK: Myriad Convention Center, Mar. 16-Mar. 24, 1991

Albuquerque, NM: Albuquerque Convention Center, Mar. 28-Apr. 2, 1991

Phoenix, AZ: Arizona Veterans Memorial Coliseum, Apr. 9-Apr. 15, 1991

Reno, NV: Lawlor Events Center, Apr. 18-Apr. 21, 1991

San Francisco, CA: Fort Mason Center/Pier 2 Herbst Pavilion, Apr. 25-May 2, 1991

Los Angeles, CA: To be announced, May 7-May 12, 1991

Honolulu, HI: Aloha Tower, May 21-May 24, May 26-May 28, 1991

Seattle, WA: Washington State Convention and Trade Center, June 11-June 15, 1991

Salem, OR: Oregon State Fair and Expo Center, June 19-June 24, 1991

Juneau, AK: Centennial Hall Convention Center, July 2-July 12, 1991

Boise, ID: Western Idaho Fair & Exposition Center, July 21-July 24, 1991

Butte, MT: Butte Civic Center, July 30-Aug. 3, 1991

Salt Lake City, UT: Salt Palace Center, Aug. 6-Aug. 10, 1991

Casper, WY: Casper Events Center, Aug. 15-Aug. 18, 1991

Topeka, KS: Kansas Expo Center, Aug. 22-Aug. 25, 1991

Denver, CO: Colorado Convention Center, Aug. 29-Sept. 6, 1991

Saint Paul, MN: Saint Paul Civic Center, Sept. 13-Sept. 19, 1991

Lincoln, NE: Pershing Municipal Auditorium, Sept. 23-Sept. 28, 1991

Bismarck, ND: Bismarck Civic Center, Oct. 2-Oct. 6, 1991

Sioux Falls, SD: Sioux Falls Arena, Oct. 10-Oct. 14, 1991

Davenport, IA: River Center/Adler Theatre, Oct. 22-Oct. 27, 1991

Columbia, MO: Holiday Inn Executive Center, Nov. 2-Nov. 7, 1991

Milwaukee, WI: The MECCA, Nov. 12-Nov. 16, 1991

Chicago, IL: Navy Pier, Nov. 19-Nov. 24, 1991

Louisville, KY: Commonwealth Convention Center, Dec. 3-Dec. 7, 1991

Indianapolis, IN: Indiana State Fairgrounds, Dec. 11-Dec. 14, 1991

Jackson, MS: Mississippi Trade Mart, Dec. 18-Dec. 21, 1991

Lansing, MI: The Lansing Center, Dec. 28-Dec. 30, 1991, Jan. 2-Jan. 3, 1992

Columbus, OH: Ohio Expositions Center/Ohio State Fairgrounds, Jan. 7-Jan. 11, 1992

Charleston, WV: Charleston Civic Center, Jan. 22-Jan. 25, 1992

Richmond, VA: The Richmond Center for Conventions and Expositions, Feb. 5-Feb. 9, 1992

*Subject to change.

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HERCO

GERARD K. DRUMMOND

Portland, Ore. *503-731-6600*

SALES: *$711 mil.* PROFITS: *$68 mil.*

MARKET VALUE: *$760 mil.*

▶ Born 10/9/37, New York, N. Y.; BS, Cornell, 1959; LLB, Cornell Law, 1963. Career path–legal; tenure–14 years, CEO 14 years. Compensation: 1989 salary & bonus, $281,000; ownership, 20,000 direct, 7,000 indirect shares. ▶ Runs precious-metals and energy-producing subsidiary 82% owned by utility PacifiCorp. He's been bolstering low-sulfur coal holdings, getting ready for clean-air legislation. Gold and silver earnings up thanks to cost cutting. Also an executive vice-president at PacifiCorp, where he lost race for top slot.

NETWORK SYSTEMS

LYLE D. ALTMAN

Minneapolis, Minn. *612-424-4888*

SALES: *$145 mil.* PROFITS: *$17 mil.*

MARKET VALUE: *$293 mil.*

▶ Born 10/12/30, Minneapolis, Kan.; BS (eng.), U. of Neb., 1952. Career path–merchandising/marketing; tenure–14 years, CEO 9 years. Compensation: 1989 salary & bonus, $277,000; ownership, 352,000 shares.[8] ▶ Mild-mannered boss basking in good times in an arcane business: high-performance computer networking systems, which link big computers and workstations. Profits are way up, and he's signed pact with supercomputer maker Cray Research to develop really big networks. He's an avid golfer on his own time.

NEUTROGENA

LLOYD E. COTSEN

Los Angeles, Calif. *213-642-1150*

SALES: *$203 mil.* PROFITS: *$27 mil.*

MARKET VALUE: *$431 mil.*

▶ Born 2/25/29, Boston, Mass.; AB (history), Princeton, 1950; MBA, Harvard, 1957. Career path–merchandising/marketing; tenure–33 years, CEO 8 years. Compensation: 1989 salary & bonus, $1,003,000; ownership, 1,000,000 direct, 10,122,000 indirect shares. ▶ Ex-archaeologist and son-in-law of founder who carved company into an enviable niche seller of specialty soaps. Since competitors copied strategy, double-digit growth, profits slowed. Now, he's testing new products, TV ads to boost sales. Still finds time for an occasional Grecian dig.

NEVADA POWER

CHARLES ALBERT LENZIE

Las Vegas, Nev. *702-367-5000*

SALES: *$418 mil.* PROFITS: *$51 mil.*

MARKET VALUE: *$594 mil.*

▶ Born 9/5/37, S. Wilmington, Ill.; BS (accounting), U. of Ill., 1960. Career path–finance/accounting; tenure–16 years, CEO 1 year. Compensation: 1989 salary & bonus, $253,000; ownership, 4,000 direct, 4,000 indirect shares. ▶ Runs nation's fastest-growing utility, hooking up 3,000 meters a month. Vegas is main market, but also serves booming Laughlin. Signing deals with independent producers, Bonneville to assure peak-load supplies. Active Catholic layman involved with development group seeking to lure nongaming industries to state.

NEW ENGLAND CRITICAL CARE

PATRICK S. SMITH

Westborough, Mass. *508-836-3610*

SALES: *$83 mil.* PROFITS: *$9 mil.*

MARKET VALUE: *$297 mil.*

▶ Born 4/10/52, Evanston, Ill.; AB (pre-med.), John Carroll, 1974. Career path–marketing, sales; tenure–9 years, CEO 9 years. Compensation: 1989 salary & bonus, $387,000; ownership, 330,000 shares.[8] ▶ He was set for med school but quit to sell medical products before classes began. Saw opportunities in home health care, founded company when his boss wasn't interested. Now leader in growing industry, with new markets in pediatrics, cancer, AIDS. He's into home exercise too–the strenuous kind: weightlifting, high-impact aerobics.

NEW ENGLAND ELECTRIC SYSTEM

JOHN W. ROWE

Westboro, Mass. *508-366-9011*

SALES: *$1.6 bil.* PROFITS: *$149 mil.*

MARKET VALUE: *$1.5 bil.*

▶ Born 5/18/45, Dodgeville, Wis.; BS (history), U. of Wis., 1967; JD, U. of Wis. Law, 1970. Career path–legal; tenure–2 years, CEO 2 years. Compensation: 1989 salary & bonus, $360,000; ownership, 2,000 shares.[7] ▶ History buff who keeps the lights on late to read of Byzantium, the Orient. Regulatory situation at work similarly complex. Owns 10% of troubled Seabrook plant. Tried to buy the rest but lost out to Northeast Utilities. Regulators have allowed him to start collecting a portion of investment and operating expenses in the plant.

NEW PLAN REALTY TRUST

WILLIAM NEWMAN

New York, N. Y. *212-869-3000*

SALES: *$44 mil.* PROFITS: *$27 mil.*

MARKET VALUE: *$544 mil.*

▶ Born 7/6/26, New York, N. Y.; BBA, City Coll. of N. Y., 1947. Career path–finance/accounting; tenure–48 years, CEO 29 years. Compensation: 1989 salary & bonus, $347,000; ownership, 1,114,000 direct, 115,000 indirect shares.[8] ▶ He's what Donald Trump wanted to be–king of cash. His strip shopping centers, apartment complexes are low on glamour, high n profits. Trust boasts a 27% average annual total return over) years. Real estate slump may play into his hands. Strategy: k off bargains from banks swamped with foreclosures.

NEW YORK STATE ELECTRIC & GAS

JAMES ANDREW CARRIGG

Binghamton, N. Y. *607-729-2551*

SALES: *$1.4 bil.* PROFITS: *$158 mil.*

MARKET VALUE: *$1.3 bil.*

▶ Born 4/17/33, Johnson City, N. Y. Career path–administration, operations; tenure–32 years, CEO 2 years. Compensation: 1989 salary & bonus, $302,000; ownership, 1,000 direct, 5,000 indirect shares. ▶ After painfully working through a bad year to a comparatively good one, he's facing new regulatory troubles: allegations of excessive generating costs exposing ratepayers to millions in extra charges. And demand in New York's deteriorating economy is already so-so. A golfer, he's a running and fitness fanatic since his 1988 heart attack.

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NEW YORK TIMES

ARTHUR OCHS SULZBERGER

New York, N. Y. *212-556-1234*

SALES: *$1.8 bil.* PROFITS: *$68 mil.*

MARKET VALUE: *$1.4 bil.*

▶ Born 2/5/26, New York, N. Y.; BA, Columbia, 1951. Career path–newspaper publishing; tenure–39 years, CEO 17 years. Compensation: 1989 salary & bonus, $592,000[1]; ownership, 3,595,000 direct, 875,000 indirect shares. ▶ Read all about it: Flagship paper is finally adding some color to its good gray (mostly Sunday) pages–next year. Earnings picture is still muddy thanks to ailing New York economy, damp ad climate all over the country, costly new machinery, and acquisitions–notably *McCall's*. Son "Pinch" waits in the wings.

NEWELL

DANIEL C. FERGUSON

Freeport, Ill. *815-235-4171*

SALES: *$1.1 bil.* PROFITS: *$85 mil.*

MARKET VALUE: *$1.5 bil.*

▶ Born 5/4/27, Freeport, Ill.; BA, Hamilton, 1948; MBA, Stanford, 1950. Career path–production/manufacturing; tenure–40 years, CEO 24 years. Compensation: 1989 salary & bonus, $1,171,000; ownership, 1,343,000 direct, 369,000 indirect shares. ▶ Has been sneaking up on housewares companies, buying them, cutting costs, bumping margins. But 1987 deal for Anchor Hocking raised profile. Now, targets see him coming, and two have fended him off. So sales should be flat this year, though fatter margins will help profits. Legendary for neat office.

NEWMONT GOLD

GORDON RAE PARKER

Denver, Colo. *303-863-7414*

SALES: *$559 mil.* PROFITS: *$118 mil.*

MARKET VALUE: *$4.8 bil.*

▶ Born 12/2/35, Cape Town, S. Africa; BS (mining eng., 1958), MS (1959), Mont. Sch. of Mines; MBA, U. of Cape Town, 1966. Career path–engineering/technical; tenure–31 years, CEO 5 years. Compensation: 1989 salary & bonus, $345,000; ownership, 1,000 shares. ▶ Much of what glitters–is his gold. Quiet patrician heads largest U. S. producer (as well as parent Newmont Mining) and met long-term production goal of 1.5 million ounces per year. Now, he wants to hit 1.7 million. Big on capital spending. Symphony buff helped save Denver Symphony.

NEWMONT MINING

GORDON RAE PARKER

Denver, Colo. *303-863-7414*

SALES: *$582 mil.* PROFITS: *$130 mil.*

MARKET VALUE: *$3 bil.*

▶ Born 12/2/35, Cape Town, S. Africa; BS (mining eng., 1958), MS (1959), Mont. Sch. of Mines; MBA, U. of Cape Town, 1966. Career path–engineering/technical; tenure–31 years, CEO 5 years. Compensation: 1989 salary & bonus, $897,000; ownership, 48,000 shares. ▶ Having a quieter year. After fight, Hanson PLC bought Consolidated Gold Fields, his 49% owner, now plans to cut stake to 26%. He'll also sell shares to raise cash for new gold fields. Sold coal holdings to Hanson for $726 million, which he'll apply to debt. Also heads Newmont Gold.

NIAGARA MOHAWK POWER

WILLIAM J. DONLON

Syracuse, N. Y. *315-474-1511*

SALES: *$2.9 bil.* PROFITS: *$151 mil.*

MARKET VALUE: *$1.7 bil.*

▶ Born 1/28/30, Albany, N. Y.; BS (econ.), Siena, 1962. Career path–merchandising/marketing, operations; tenure–42 years, CEO 2 years. Compensation: 1989 salary & bonus, $319,000; ownership, 15,000 indirect shares.[7] ▶ Troubled Nine Mile Point nuclear plant should be back on line soon, and a compromise with regulators will let him pass along some of its costs. That solves a long-term problem, but there are still plenty of short-term concerns: He must absorb $41 million in shutdown expenses. Electricity demand in his depressed region is weak.

NICOR

RICHARD G. CLINE

Naperville, Ill. *708-305-9500*

SALES: *$1.6 bil.* PROFITS: *$120 mil.*

MARKET VALUE: *$1.2 bil.*

▶ Born 2/17/35, Chicago, Ill.; BS (liberal arts), U. of Ill., 1957. Career path–merchandising/marketing; tenure–5 years, CEO 5 years. Compensation: 1989 salary & bonus, $849,000; ownership, 67,000 shares. ▶ Scholarly, methodical ex-supermarket executive. He's decided the company will try to wring growth from existing businesses–big Northern Illinois gas utility, smaller oil-and-gas exploration business, Caribbean shipping line–rather than look far afield. Income from continuing operations rose 13% last year–the fifth straight increase.

NIPSCO INDUSTRIES

EDMUND ARMIN SCHROER

Hammond, Ind. *219-853-5200*

SALES: *$1.6 bil.* PROFITS: *$137 mil.*

MARKET VALUE: *$1.1 bil.*

▶ Born 2/14/28, Hammond, Ind.; BA (busi-
, Valparaiso, 1949; JD, Northwestern Law, 1952. Career
l. tenure–14 years, CEO 14 years. Compensation: 1989
, $350,000; ownership, 16,000 direct, 17,000 indirect
res. ▶ Breathes a sigh of relief with every story about revivtry. His utility serves area that's home to five maies. Ate $52 million charge for canceled nuke
, but now it's all behind him. Coming up: high-tech
ystem for coal plant, owned partly by Mitsubishi.

NL INDUSTRIES

J. LANDIS MARTIN

Houston, Tex. *713-987-5000*

SALES: *$1 bil.* PROFITS: *$170 mil.*

MARKET VALUE: *$744 mil.*

▶ Born 11/5/45, Grand Island, Neb.; BS (business), Northwestern, 1968; JD, Northwestern Law, 1973. Career path–legal; tenure–3 years, CEO 3 years. Compensation: 1989 salary & bonus, $695,000; ownership, 4,000 direct, 3,000 indirect shares. ▶ His paint-pigment purveyor, controlled by Harold Simmons' Valhi, was a cash machine last year, but his acquisition record's mixed: Bids for Georgia Gulf, Lockheed failed. Will soon merge into parent Valhi. Still heads spin-off Baroid (oil services), travels so much, he lives in Denver, drops in on Houston office.

NIKE

PHILIP H. KNIGHT

Beaverton, Ore. *503-641-6453*

SALES: *$1.7 bil.* PROFITS: *$167 mil.*

MARKET VALUE: *$2.5 bil.*

▶ BORN 2/24/38, PORTLAND, ORE.; BA (BUSINESS), U. OF ORE., 1959; MBA, STANFORD, 1962. CAREER PATH—MARKETING, FIN./ACCTING., PROD./MFG.; TENURE—21 YEARS, CEO 21 YEARS. COMPENSATION: 1989 SALARY & BONUS, $543,000; OWNERSHIP, 205,000 SHARES. ▶ RESERVED, COMPETITIVE INNOVATOR WHO GETS CREDIT FOR TURNING SNEAKER BIZ INTO HIGH-PROFIT, FAST-GROWTH FASHION MARKETPLACE. DESPITE MEDIA-WISE PRESSURE FROM CHICAGO-BASED OPERATION PUSH TO HIRE AND PROMOTE MORE BLACKS, HE HASN'T LOST HIS BOUNCE. HEADS NATION'S LEADING PRODUCER OF ATHLETIC FOOTWEAR, AND SALES AND EARNINGS ARE UP—AS ARE LATE-SEASON ORDERS. OVERSEAS OPERATIONS, APPAREL TIED TO SPECIFIC SHOE CATEGORIES LOOK PROMISING. THOUGH OUTLOOK IS GOOD, HE'S UNDER THE GUN TO DEVELOP THE INDUSTRY'S NEXT HOT PRODUCT. IF BO KNOWS WHAT IT IS, HE ISN'T TELLING.

NOBLE AFFILIATES

ROBERT KELLEY

Ardmore, Okla. *405-223-4110*

SALES: *$179 mil.* PROFITS: *$23 mil.*

MARKET VALUE: *$716 mil.*

▶ Born 6/18/45, Durant, Okla.; BS (business admin.), U. of Okla., 1973. Career path–finance/accounting; tenure–15 years, CEO 4 years. Compensation: 1989 salary & bonus, $285,000; ownership, 5,000 direct, 1,000 indirect shares. ▶ Flush with earnings and cash flow, he's prowling for more oil and gas reserves, which he boosted 19% and 5% last year. Net income last year more than doubled. Rising oil and gas prices and stronger natural gas demand should pump up earnings for the next few years, letting him relax on the golf course and tennis courts.

NORDSON

WILLIAM PAUL MADAR

Westlake, Ohio *216-892-1580*

SALES: *$282 mil.* PROFITS: *$34 mil.*

MARKET VALUE: *$335 mil.*

▶ Born 11/3/39, Warren, Ohio; BS (chem. eng.), Purdue, 1961; MBA, Stanford, 1965. Career path–prod./mfg., supply/transp.; tenure–5 years, CEO 5 years. Compensation: 1989 salary & bonus, $1,128,000; ownership, 74,000 direct, 1,000 indirect shares. ▶ Quit Sohio to run this machinery manufacturer, which makes automated dispensers for adhesives, sealants, coatings. Won recent award for export promotion–and for good reason: 60% of his sales outside U. S. Still, earnings are off now due to slower-than-expected sales of high-margin gear.

NORDSTROM

BRUCE A. NORDSTROM

Seattle, Wash. *206-628-2111*

SALES: *$2.7 bil.* PROFITS: *$115 mil.*

MARKET VALUE: *$1.9 bil.*

▶ Born 10/1/33, Seattle, Wash.; BA, U. of Wash., 1956. Career path–merchandising/marketing; tenure–30 years, CEO 13 years. Compensation: 1989 salary & bonus, $300,000; ownership, 3,319,000 direct, 2,502,000 indirect shares. ▶ Oops. Upscale clothing retailer, known for unparalleled customer service, got black eye over charges that it made employees work "off the clock" to increase productivity. A $15 million reserve to repay employees contributed to rare down year. Encountering weak economy, tough competition on East Coast.

NORFOLK SOUTHERN

ARNOLD BORDEN MCKINNON

Norfolk, Va. *804-629-2680*

SALES: *$4.5 bil.* PROFITS: *$606 mil.*

MARKET VALUE: *$6.6 bil.*

▶ Born 8/13/27, Goldsboro, N. C.; AB, Duke, 1950; LLB, Duke Law, 1951. Career path–finance/accounting, legal; tenure–39 years, CEO 4 years. Compensation: 1989 salary & bonus, $1,229,000; ownership, 41,000 direct, 7,000 indirect shares. ▶ Turned one-year stint as Southern Railway law assistant into career. With two years until retirement, he's grooming possible successors. Strong coal market, tight rein on expenses so far equals a more profitable year. Went to Soviet Union in search of business. Following 1987 heart attack, walks two miles a day.

NORTHEAST UTILITIES

WILLIAM B. ELLIS

Hartford, Conn. *203-665-5000*

SALES: *$2.2 bil.* PROFITS: *$242 mil.*

MARKET VALUE: *$2 bil.*

▶ Born 7/4/40, Vicksburg, Miss.; BS (chem. eng.), Carnegie-Mellon, 1962; PhD (chem. eng.), U. of Md., 1966. Career path–engineering/technical, finance/accounting; tenure–14 years, CEO 7 years. Compensation: 1989 salary & bonus, $518,000[1]; ownership, 9,000 shares. ▶ Triumphant year for boyish boss of New England's biggest utility. He's finally getting bankrupt Public Service of New Hampshire; will own it by next summer. Also closer to takeover of troubled Seabrook nuke, now up and running. One pock: sick New England economy.

NORTHERN STATES POWER

JAMES J. HOWARD

Minneapolis, Minn. *612-330-5500*

SALES: *$2 bil.* PROFITS: *$222 mil.*

MARKET VALUE: *$1.9 bil.*

▶ Born 7/1/35, Pittsburgh, Pa.; BBA, U. of Pittsburgh, 1957; MS (business), MIT, 1970. Career path–operations; tenure–4 years, CEO 4 years. Compensation: 1989 salary & bonus, $583,000; ownership, 1,000 direct, 6,000 indirect shares. ▶ He's sticking to powerlines and pipelines while other utilities are diversifying. That would be fine, except that his ROE is 11.7% vs. an industry average of 13%. No wonder he personally asked regulators for a better deal. If he gets to raise rates, expect him to take time out in Idaho–probably near a trout stream.

NORTHERN TRUST

DAVID W. FOX

Chicago, Ill. *312-630-6000*

SALES: *$1.2 bil.* PROFITS: *$113 mil.*

MARKET VALUE: *$858 mil.*

▶ Born 8/29/31, Aurora, Ill.; BS, (finance), Notre Dame, 1953; MBA, U. of Chicago, 1958. Career path–finance/accounting; tenure–35 years, CEO 1 year. Compensation: 1989 salary & bonus, $575,000; ownership, 104,000 shares. ▶ Insider's insider, 35-year veteran has big shoes to fill (predecessor turned bank around in mid-'80s). New day-care center, gym, garage make him popular among employees. Strengthening master trust operations with investment in global accounts system. Potential trouble spot: heavy commercial lending in Florida, Illinois.

NORTHROP

KENT KRESA

Los Angeles, Calif. *213-553-6262*

SALES: *$5.2 bil.* LOSS: *$80 mil.*

MARKET VALUE: *$787 mil.*

▶ Born 3/24/38, New York, N. Y.; BS (1959), MS (aeronautics, astronautics, 1961) MIT. Career path–engineering/technical; tenure–15 years, CEO 9 months. Compensation: 1989 salary & bonus, $413,000; ownership, 209,000 direct, 3,000 indirect shares. ▶ Still flying aircraft maker through flak surrounding predecessor Tom Jones. He arranged for guilty pleas, fines to end dispute over false test results, but criminal probes still pending. Eager to keep B-2 program alive, argues $800 million superbomber can do tactical duty in Third World hotspots.

NORWEST

LLOYD PETER JOHNSON

Minneapolis, Minn. *612-667-1234*

SALES: *$2.9 bil.* PROFITS: *$237 mil.*

MARKET VALUE: *$1.8 bil.*

▶ Born 5/1/30, Minneapolis, Minn.; BA (business), Carleton, 1952; MBA, Stanford, 1954. Career path–finance/accounting; tenure–6 years, CEO 6 years. Compensation: 1989 salary & bonus, $1,291,000; ownership, 192,000 direct, 11,000 indirect shares. ▶ After pulling this regional banker out of a slump, he's turned to the acquisition trail. Buying four bank groups as well as a large S&L. Concern about loan-troubled Colorado bank hurts stock. Low-key style befits a career spent mainly in California. Likes hunting pheasant or duck, running.

NOVELL

RAYMOND J. NOORDA

Provo, Utah *801-379-5900*

SALES: *$422 mil.* PROFITS: *$49 mil.*

MARKET VALUE: *$1.8 bil.*

▶ Born 6/19/24, Ogden, Utah; BS (elect. eng.), U. of Utah, 1949. Career path–engineering/technical, merchandising/marketing; tenure–7 years, CEO 7 years. Compensation: 1989 salary & bonus, NA[6]; ownership, 9,124,000 direct, 8,034,000 indirect shares. ▶ His board scuttled merger he negotiated with Lotus, and he's feeling pressure from rival Microsoft. Question: Will big corporations use his networking software for companywide applications as readily as they have for small-scale uses? Also must choose an heir apparent. Avid mountain climber.

NUCOR

F. KENNETH IVERSON

Charlotte, N. C. *704-366-7000*

SALES: *$1.3 bil.* PROFITS: *$58 mil.*

MARKET VALUE: *$1.4 bil.*

▶ Born 9/18/25, Downers Grove, Ill.; BS (mech. eng.), Cornell, 1945; MS (mech. eng.), Purdue, 1947. Career path–engineering/technical; tenure–28 years, CEO 25 years. Compensation: 1989 salary & bonus, $328,000; ownership, 202,000 [illegible],000 indirect shares. ▶ Maverick mini-steel mill operator [illegible] big write-off for startup costs of his first flat-rolled facility, [illegible] needn't have been so conservative. High-tech $270 million [illegible] turned a profit in June. So he may build more. Keeps fit by [illegible] 50 pounds of feed daily to exotic waterfowl on his pond.

NYNEX

WILLIAM C. FERGUSON

New York, N. Y. *212-370-7400*

SALES: *$13.2 bil.* PROFITS: *$808 mil.*

MARKET VALUE: *$13.8 bil.*

▶ Born 10/26/30, Detroit, Mich.; AB, Albion, 1952. Career path–engineering/technical, operations; tenure–38 years, CEO 1 year. Compensation: 1989 salary & bonus, $744,000; ownership, 13,000 direct, 7,000 indirect shares. ▶ "Sick and tired" of controversy, and no wonder. He's had a rough first year: three-month strike, rate increase delay, criminal indictment of company for overstepping AT&T breakup decree, and now, charges of scandalous Florida parties attended by employees, suppliers–and prostitutes. Makes it hard to focus on basics.

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THE CORPORATE ELITE

OCCIDENTAL PETROLEUM

ARMAND HAMMER

Los Angeles, Calif. *213-879-1700*

SALES: *$20.1 bil.* PROFITS: *$256 mil.*

MARKET VALUE: *$7.1 bil.*

▶ Born 5/21/98, New York, N. Y.; BS, Columbia, 1919; MD, Columbia, 1921. Career path–entrepreneur; tenure–33 years, CEO 33 years. Compensation: 1989 salary & bonus, $2,334,000; ownership, 1,031,000 direct, 141,000 indirect shares. ▶ No sign he's slowing down–even though poor performance at his chemical operations affects overall earnings. Faces $8 billion debt burden, recent credit downgrade. Says he'll curb spending after suit attacking use of company funds to build museum for his art collection. President Ray Irani is successor-in-residence.

OCEAN DRILLING & EXPLORATION

JERRY W. WATKINS

New Orleans, La. *504-561-2811*

SALES: *$302 mil.* PROFITS: *$44 mil.*

MARKET VALUE: *$1.2 bil.*

▶ Born 12/10/31, Vernon, Tex.; attended Hendrix, La. Tech; JD, U. of Ark. Law, 1954. Career path–legal; tenure–1 year, CEO 1 year. Compensation: 1989 salary & bonus, $187,000; ownership, 1,000 shares. ▶ He's splitting company in two for parent Murphy Oil, where he was chief counsel. Goal was to spin-off money-losing contract-drilling unit and keep oil and gas business, which he would control. So far, he's sold diving operations, awaiting IRS approval for final separation. While he waits, he's drilling several North Sea wildcat wells.

OCEANEERING INTERNATIONAL

JOHN ROSSMAN HUFF

Houston, Tex. *713-578-8868*

SALES: *$183 mil.* PROFITS: *$10 mil.*

MARKET VALUE: *$365 mil.*

▶ Born 3/14/46, Oxford, Miss.; BCE, Ga. Tech, 1968. Career path–engineering/technical; tenure–4 years, CEO 4 years. Compensation: 1989 salary & bonus, $312,000; ownership, 103,000 shares. ▶ Scuba fanatic (he recently dived in South Pacific's Truk Lagoon) heads major provider of undersea services. Company initially served only energy industry. But during slump, he broadened customer base to include AT&T, NASA, others. Now on a roll: Demand from offshore oil customers returning, and other business brisk, too.

OCTEL COMMUNICATIONS

ROBERT COHN

Milpitas, Calif. *408-942-6500*

SALES: *$87 mil.* PROFITS: *$12 mil.*

MARKET VALUE: *$308 mil.*

▶ Born 4/17/49, Winnipeg, Canada; BS (math, computer sci.), U. of Fla., 1972; MBA (mktg., intl. bus., finance), Stanford, 1976. Career path–merchandising/marketing; tenure–8 years, CEO 8 years. Compensation: 1989 salary & bonus, $338,000[7]; ownership, 300,000 shares.[7] ▶ Corporate America's favorite phone-answerer, his voicemail systems can be used with more switching equipment than competing units and greetings are among the least annoying. Into playing piano, figure skating, and popcorn–with a machine in every company building.

OGDEN

R. RICHARD ABLON

New York, N. Y. *212-868-6000*

SALES: *$1.4 bil.* PROFITS: *$67 mil.*

MARKET VALUE: *$809 mil.*

▶ Born 10/7/49, New York, N. Y.; BA (exp. psychology), Boston U., 1971. Career path–operations, marketing; tenure–19 years, CEO 5 months. Compensation: 1989 salary & bonus, $789,000; ownership, 28,000 direct, 3,000 indirect shares. ▶ Took over in May from dad–and already improving Wall Street ties. Company is diverse, one-of-a-kind: Aviation group (the largest) provides meals for airlines; entertainment group manages arenas; offshore group caters, cleans drilling units. Recently spun off profitable Ogden Projects, a waste-to-energy converter.

OGDEN PROJECTS

DAVID L. SOKOL

Fairfield, N. J. *201-882-9000*

SALES: *$335 mil.* PROFITS: *$25 mil.*

MARKET VALUE: *$775 mil.*

▶ Born 9/8/56, Omaha, Neb.; BS (eng.), U. of Neb. at Omaha, 1978. Career path–engineering; tenure–7 years, CEO 7 years. Compensation: 1989 salary & bonus, $787,000; ownership, NA.[8] ▶ He used to be a lineman on Nebraska/Omaha football squad. Likes team play at this new Ogden spin-off, with customers' contracts routinely running 25 years. Company converts waste to energy, manages landfills, handles hazardous-waste treatment, recycles. Analysts see fast, fast growth. A few projects on hold pending environmental legislation.

OHIO CASUALTY

JOSEPH LARUE MARCUM

Hamilton, Ohio *513-867-3000*

SALES: *$1.6 bil.* PROFITS: *$102 mil.*

MARKET VALUE: *$769 mil.*

▶ Born 7/2/23, Hamilton, Ohio; AB (business [illegible] ntioch, 1947; MBA, Miami U. (Ohio), 1965. Career path–[illegible]rchandising/marketing; tenure–43 years, CEO 2 years. Com[illegible] 1989 salary & bonus, $423,000; ownership, 139,000 di[illegible] direct shares. ▶ Hiker and mountain climber, his [illegible] on downward slope after 1988 peak. Weather losses [illegible] last year, and he figures high claims, regulatory [illegible]ch will make this year no better. Trimming junk [illegible] readying next-generation managers–but no plans to go.

OHIO EDISON

JUSTIN T. ROGERS JR.

Akron, Ohio *216-384-5100*

SALES: *$2.2 bil.* PROFITS: *$372 mil.*

MARKET VALUE: *$2.6 bil.*

▶ Born 8/4/29, Sandusky, Ohio; AB (polit. sci.), Princeton, 1951; JD, U. of Mich. Law, 1954. Career path–marketing, legal; tenure–32 years, CEO 11 years. Compensation: 1989 salary & bonus, $432,000; ownership, 5,000 shares. ▶ Watch out. His company predicts "materially adverse effect" on results after getting only two-thirds of a proposed $218 million rate increase to recover costs on share of nuke plant. Slashed dividend 23%, though still hopes to win higher rates. Also worried about meeting long-term demand. Investors are worried, too.

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OKLAHOMA GAS & ELECTRIC

JAMES G. HARLOW JR.

Oklahoma City, Okla. *405-272-3000*

SALES: *$1.1 bil.* PROFITS: *$129 mil.*

MARKET VALUE: *$1.4 bil.*

▶ Born 5/29/34, Oklahoma City, Okla.; BS (eng.), U. of Okla., 1957. Career path–finance/accounting; tenure–30 years, CEO 15 years. Compensation: 1989 salary & bonus, $425,000; ownership, 10,000 direct, 16,000 indirect shares. ▶ Profits down last year, so he's on the warpath to cut costs. Employees got the message: Their suggestions produced savings that were three times his initial goal. Pushing harder to sell electric power to utilities, other off-system customers. Golfs weekly. To unwind, he heads for his farm north of Oklahoma City.

OLD REPUBLIC INTERNATIONAL

ALDO CHARLES ZUCARO

Chicago, Ill. *312-346-8100*

SALES: *$1.2 bil.* PROFITS: *$99 mil.*

MARKET VALUE: *$526 mil.*

▶ Born 4/2/39, Grenoble, France; BS (business), Queens, 1962. Career path–finance/accounting; tenure–14 years, CEO 2 months. Compensation: 1989 salary & bonus, $352,000; ownership, 15,000 shares.[7] ▶ Ex-Coopers & Lybrand accountant taking over after 14-year-reign of William Stover. Company is leading issuer of mortgage guaranty, title insurance–and hurt by current real estate slump. Also has life, health businesses, recently hit by some big claims. The bright side: His portfolio managers avoided junk bonds and real estate.

OMNICOM GROUP

BRUCE CRAWFORD

New York, N. Y. *212-415-3600*

SALES: *$1 bil.* PROFITS: *$47 mil.*

MARKET VALUE: *$630 mil.*

▶ Born 3/16/29, West Bridgewater, Mass.; BS (econ.), Wharton, 1952. Career path–advertising; tenure–1 year, CEO 1 year. Compensation: 1989 salary & bonus, $796,000; ownership, 81,000 shares. ▶ Joke was it stood for Operations May Now Improve, Considering Our Merger. He's paring diverse clutch of marketing agencies firm has acquired, trimming layers as Mad Ave. weathers sluggish market. DDB Needham unit trying to woo clients with controversial compensation plan. He's still a power at Metropolitan Opera, where he was general manager.

ORACLE SYSTEMS

LAWRENCE JOSEPH ELLISON

Redwood Shores, Calif. *415-506-7000*

SALES: *$584 mil.* PROFITS: *$82 mil.*

MARKET VALUE: *$1.5 bil.*

▶ Born 8/17/44, New York, N. Y.; BS, U. of [illegible], 1965. Career path–engineering/technical; tenure–13 years, CEO 13 years. Compensation: 1989 salary & bonus, $1,734,000; ownership, 34,447,000 shares.[7] ▶ A fitness fanatic [illegible]ll need stamina. His fallen software star just restated 1989 results and is still reeling from surprise loss in first quarter, its [illegible]st as a public company. Other worries: Stock down and several key executives have recently left. Into Japanese health food, riding bikes. Puts a gym in every Oracle building.

OLD KENT FINANCIAL

JOHN C. CANEPA

Grand Rapids, Mich. *616-771-5000*

SALES: *$863 mil.* PROFITS: *$85 mil.*

MARKET VALUE: *$611 mil.*

▶ Born 8/26/30, Newburyport, Mass.; A[illegible] Harvard, 1953; MBA, NYU, 1960. Career path–finance/accou[illegible] ing; tenure–18 years, CEO 8 years. Compensation: 1989 salary bonus, $620,000; ownership, 125,000 shares. ▶ Runs bank-holdi[illegible] company that serves western Michigan, Chicago. Known for o[illegible] standing performance, shrewd acquisitions. Buys strong lo[illegible] banks, pays sensible prices, integrates them well with his ope[illegible] tions. Not flamboyant: Enjoys yard work, playing with grandch[illegible] dren, and perusing annual reports in his favorite easy chair.

OLIN

JOHN W. JOHNSTONE JR.

Stamford, Conn. *203-356-2000*

SALES: *$2.5 bil.* PROFITS: *$124 mil.*

MARKET VALUE: *$688 mil.*

▶ Born 11/19/32, Brooklyn, N. Y.; BA (chem[illegible] physics), Hartwick, 1954. Career path–merchandising/mark[illegible] ing; tenure–11 years, CEO 3 years. Compensation: 1989 salary bonus, $894,000; ownership, 37,000 shares.[8] ▶ His hobby is sho[illegible] ing at clay targets. And why not? Company is major manufactu[illegible] er of sporting ammunition. But that business is hardly boo[illegible] ing–and neither are basic chemical operations, which compri[illegible] 50% of sales. Swimming-pool chlorine, market he dominates, [illegible] weak, too. Potential plus: He makes shells for 120mm tank gun[illegible]

ONEOK

J.D. SCOTT

Tulsa, Okla. *918-588-7000*

SALES: *$618 mil.* PROFITS: *$37 mil.*

MARKET VALUE: *$346 mil.*

▶ Born 12/28/31, Seymour, Tex.; BS (ch[illegible] eng.), Tex. A&M, 1954. Career path–engineering/technical, op[illegible] ations; tenure–37 years, CEO 4 years. Compensation: 1989 sala[illegible] & bonus, $293,000; ownership, 51,000 shares. ▶ A former Tex[illegible] A&M football player, he's seen tough times–dividend cuts a[illegible] drawn-out wrangles over "take-or-pay" contracts. But no[illegible] there's light at the end of the pipeline: His gas producer and ut[illegible] ty (which markets to 635,000 customers) could benefit handsom[illegible] ly if natural gas prices rise and Oklahoma's economy rebounds

ORANGE & ROCKLAND UTILITIES

JAMES F. SMITH

Pearl River, N. Y. *914-352-6000*

SALES: *$536 mil.* PROFITS: *$44 mil.*

MARKET VALUE: *$366 mil.*

▶ Born 5/15/36, Saugus, Mass.; BS (accou[illegible] ing), Bentley, 1956. Career path–finance/accounting; tenure–[illegible] years, CEO 11 years. Compensation: 1989 salary & bonu[illegible] $455,000; ownership, 9,000 shares.[7] ▶ Oops! His utility–one of t[illegible] nation's most efficient and well-managed–is running a bit sho[illegible] of capacity. So he's courting independent power producers. Ot[illegible] erwise, he's fortunate to have no nuclear troubles, a goo[illegible] diverse mix of fuel supply, and an innovative rate structure th[illegible] links profits to energy savings, not just revenues.

ORYX ENERGY

ROBERT P. HAUPTFUHRER

Dallas, Tex. *214-890-6000*

SALES: *$1.1 bil.* PROFITS: *$54 mil.*

MARKET VALUE: *$5.4 bil.*

▶ Born 12/31/31, Philadelphia, Pa.; BA (public affairs), Princeton, 1953; MBA, Harvard, 1957. Career path–finance/accounting; tenure–33 years, CEO 2 years. Compensation: 1989 salary & bonus, $940,000; ownership, 19,000 direct, 3,000 indirect shares. ▶ A skier, he's set himself up for a nice, fast run: Higher oil and gas prices and a cost-reduction program should sharply boost profits. Company was spun off from Sun, which kept refining and marketing. Bought back part of company from Pew family trusts. Big Dallas Symphony supporter.

OSHKOSH B'GOSH

CHARLES F. HYDE

Oshkosh, Wis. *414-231-8800*

SALES: *$315 mil.* PROFITS: *$38 mil.*

MARKET VALUE: *$372 mil.*

▶ Born 6/11/20, Orange, N. J.; AB (history), Wesleyan, 1943. Career path–merchandising/marketing; tenure–42 years, CEO 23 years. Compensation: 1989 salary & bonus, $572,000; ownership, 81,000 direct, 184,000 indirect shares. ▶ "Fritz" to friends, his overalls are sagging a wee bit as U. S. kidswear sales slow. So he's chasing tots abroad, with ventures in Japan, Western Europe. Two small acquisitions–Absorba baby clothes, Boston Traders children's duds. And he'll now sell to Sears, Penney. Will mass merchants dull premium image?

OVERSEAS SHIPHOLDING GROUP

MORTON PETER HYMAN

New York, N. Y. *212-869-1222*

SALES: *$308 mil.* PROFITS: *$52 mil.*

MARKET VALUE: *$606 mil.*

▶ Born 1/9/36, New York, N. Y.; BA (government), Cornell, 1956; LLD, Cornell Law, 1959. Career path–legal; tenure–21 years, CEO 19 years. Compensation: 1989 salary & bonus, $650,000; ownership, 70,000 shares. ▶ He'll be steering through choppy waters, with oil-price swings and economic slowdown likely to squeeze rates for his tankers and bulk carriers. But he's piloted these cyclical seas before and has healthy balance sheet, modern fleet, good operating record. Heavily into health-care issues, director of several hospitals.

OWENS-CORNING FIBERGLAS

MAX O. WEBER

Toledo, Ohio *419-248-8000*

SALES: *$3 bil.* PROFITS: *$172 mil.*

MARKET VALUE: *$722 mil.*

▶ Born 10/30/29, Blackwell, Okla.; BS (marketing), U. of Kan., 1951. Career path–merchandising/marketing; tenure–36 years, CEO 1 month. Compensation: 1989 salary & bonus, $422,000; ownership, 20,000 shares. ▶ Takes over in down year for glass fiber, insulation maker. Even fast-growing European sales have stalled. One bright spot: Oil price rise could boost home-insulation business as conservation measure. An avid gin rummy player, he plays a strong financial hand as well, repaying debt from $2 billion 1986 recapitalization.

PACCAR

CHARLES MCGEE PIGOTT

Bellevue, Wash. *206-455-7400*

SALES: *$3.5 bil.* PROFITS: *$242 mil.*

MARKET VALUE: *$1.1 bil.*

▶ Born 4/21/29, Seattle, Wash.; BS (ind. eng.), Stanford, 1951. Career path–operations; tenure–34 years, CEO 23 years. Compensation: 1989 salary & bonus, $964,000; ownership, 1,302,000 direct, 1,015,000 indirect shares. ▶ Man at the wheel manages to stay profitable during severe truck slowdown, slashing employment, production instead of chasing volume. Still, market share is rising. Loaded with cash–and not inclined to diversify. Intensely private, recently finished two-year hitch as president of Boy Scouts. A fly fisherman, golfer, tennis player.

PACIFIC ENTERPRISES

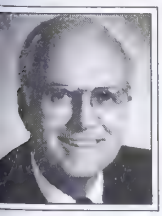
JAMES R. UKROPINA

Los Angeles, Calif. *213-895-5000*

SALES: *$6.8 bil.* PROFITS: *$218 mil.*

MARKET VALUE: *$2.7 bil.*

▶ Born 9/10/37, Fresno, Calif.; AB (history), Stanford, 1959; MBA, Stanford, 1961; LLB, USC Law, 1965. Career path–legal; tenure–6 years, CEO 11 months. Compensation: 1989 salary & bonus, $897,000; ownership, 39,000 direct, 2,000 indirect shares. ▶ First person outside founding Miller family to head this parent of Southern California Gas–and maybe he'll do better. Utility plagued by offbeat diversification into retailing. One-quarter of assets now in drugstore, sporting goods chains–where business is lousy. Top retail exec just left.



PACIFIC GAS & ELECTRIC

RICHARD A. CLARKE

San Francisco, Calif. *415-972-7000*

SALES: *$8.6 bil.* PROFITS: *$901 mil.*

MARKET VALUE: *$8.8 bil.*

▶ Born 5/18/30, San Francisco, Calif.; AB (political sci.), U. of Calif. at Berkeley, 1952; JD, U. of Calif. Law, 1955. Career path–legal; tenure–35 years, CEO 4 years. Compensation: 1989 salary & bonus, $695,000; ownership, 17,000 shares.[7] ▶ Survived the Big Quake, barely. Mad scramble to restore power to 1.4 million customers cost $76 million. Diablo Canyon nuke plant running smoothly, helping profits snap back. He's planning $1.2 billion pipeline expansion, move into unregulated fields. Off hours, gardens, plays tennis, relaxes at Monterey beach house.

PACIFIC TELECOM

CHARLES E. ROBINSON

Vancouver, Wash. *206-696-0983*

SALES: *$657 mil.* PROFITS: *$74 mil.*

MARKET VALUE: *$998 mil.*

▶ Born 12/3/33, Salem, Ark. Career path–operations; tenure–30 years, CEO 5 years. Compensation: 1989 salary & bonus, $446,000; ownership, 1,000 shares.[8] ▶ Private, media-averse in the extreme. Intense manager has cleaned up balance sheet of PacifiCorp affiliate by shedding unrelated or money-losing assets at big non-Bell phone company. Efforts to expand in Alaska dealt a blow when Anchorage voters turned down his bid for their municipal system. Making major international push as part of giant undersea fiber-optic cable project.

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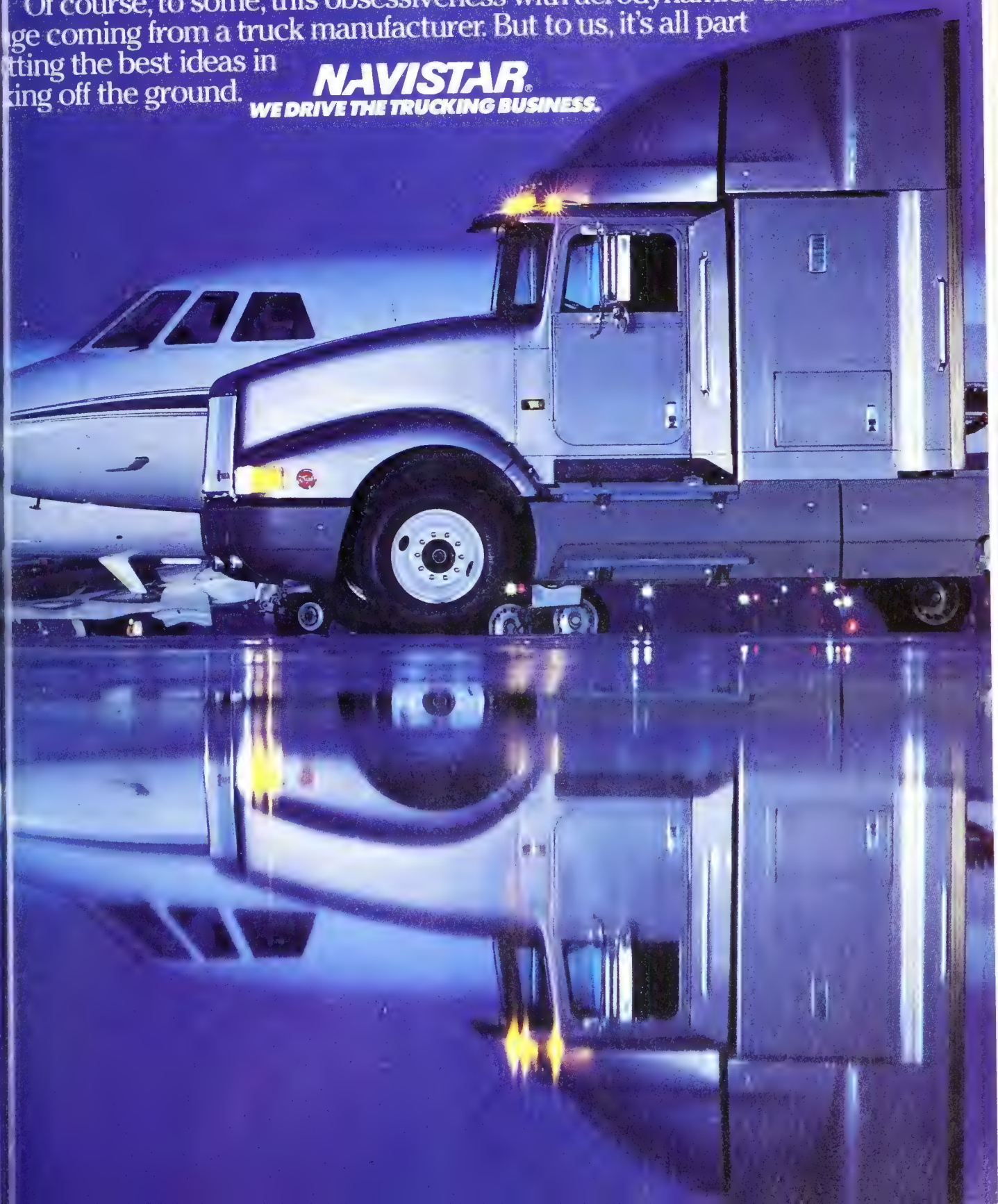


PACIFIC TELESIS GROUP

SAM GINN

San Francisco, Calif. *415-882-8000*

SALES: *$9.6 bil.* PROFITS: *$1.2 bil.*

MARKET VALUE: *$15.8 bil.*

▶ Born 4/3/37, St. Clair, Ala.; BS (indust. mgmt.), Auburn, 1959; MBA, Stanford, 1968. Career path–engineering/technical; tenure–30 years, CEO 2 years. Compensation: 1989 salary & bonus, $920,000; ownership, 10,000 direct, 3,000 indirect shares. ▶ He was insured for the earthquake, but state regulators really shook him up. New scheme links earnings to operating efficiency and required a rate cut this year. Meanwhile, he's moving smoothly into European cellular, domestic cable TV. Active in Stanford B-school affairs, Mills College trustee.

PACIFICORP

ALFRED M. GLEASON

Portland, Ore. *503-731-2000*

SALES: *$3.7 bil.* PROFITS: *$466 mil.*

MARKET VALUE: *$4.8 bil.*

▶ Born 4/4/30, Sheridan County, Kan.; attended U. of Oregon. Career path–fin./accting., admin.; tenure–41 years, CEO 2 years. Compensation: 1989 salary & bonus, $760,000; ownership, 33,000 shares. ▶ Correspondence school accountant heads impressively diversified utility-holding company. Separate listings for spin-offs Nerco (mining), Pacific Telecom (communications). Dropped hostile bid for Pinnacle West Capital (Arizona Public Service), winning power-sharing deal that helps western electricity empire (Pacific Light & Power, Utah Power).

PAINEWEBBER GROUP

DONALD B. MARRON

New York, N. Y. *212-713-2000*

SALES: *$2.9 bil.* PROFITS: *$52 mil.*

MARKET VALUE: *$387 mil.*

▶ Born 7/21/34, Goshen, N. Y.; attended Baruch Sch. of Business. Career path–financial services; tenure–25 years, CEO 10 years. Compensation: 1989 salary & bonus, $2,050,000; ownership, 310,000 shares. ▶ Times are tough on Wall Street, but he's hiring–taking advantage of the demise of Drexel Burnham, other industry difficulties to shop for talent. He's added investment bankers, retail brokers. Firm's 4,500-person sales team makes it a tempting potential takeover target, but he says he will never sell. Eye-popping art collection.

PALL

MAURICE G. HARDY

East Hills, N. Y. *516-484-5400*

SALES: *$497 mil.* PROFITS: *$58 mil.*

MARKET VALUE: *$1.1 bil.*

▶ Born 5/23/30, Bristol, England; BME, Merchant Ventures Engineering Coll., 1949. Career path–engineering/technical; tenure–30 years, CEO 11 months. Compensation: 1989 salary & bonus, $449,000[11]; ownership, 60,000 shares. ▶ Yachtsman came aboard when high-tech filter company purchased his British firm. Boosting foreign sales earned him top job, though founder David Pall, 76, is still active. Hopes to sail his 60-footer across the Atlantic next year. Glass fiber 40-footer he calls "Tupperware boat" launched here in September.

PANHANDLE EASTERN

PHILIP J. BURGUIERES

Houston, Tex. *713-627-5400*

SALES: *$2.8 bil.* PROFITS: *$70 mil.*

MARKET VALUE: *$1.3 bil.*

▶ Born 9/3/43, Franklin, La.; BS (mech. eng.), U. of Southwestern La., 1965; MBA (business, finance), Wharton, 1970. Career path–production/manufacturing; tenure–9 months, CEO 9 months. Compensation: 1989 salary & bonus, NA[2]; ownership, 16,000 shares. ▶ Has his hands full, struggling under the weight of Texas Eastern debt, fierce price competition in its Northeast markets. With gas volumes falling, it lost $13.6 million in second quarter, forcing it to cut its $2 dividend to 80¢. Ouch! Outlook is slightly better as demand rises going into winter.

PARK COMMUNICATIONS

ROY HAMPTON PARK

Ithaca, N. Y. *607-272-9020*

SALES: *$163 mil.* PROFITS: *$19 mil.*

MARKET VALUE: *$357 mil.*

▶ Born 9/15/10, Dobson, N. C.; BS (journalism), N. C. State, 1931. Career path–media; tenure–28 years, CEO 28 years. Compensation: 1989 salary & bonus, $617,000; ownership, 28,172,000 direct, 1,000 indirect shares. ▶ Began journalism career at age 12. Leaves day-to-day management to others, concentrates on acquisitions. Buys small media properties despite slowdown in newspaper, radio, TV markets. Example: *Golden Opportunities*, a monthly geared toward senior citizens. Has 182 properties in 23 states. Collects antique cars, raises peacocks.

PARKER DRILLING

ROBERT LEE PARKER

Tulsa, Okla. *918-585-8221*

SALES: *$118 mil.* LOSS: *$42 mil.*

MARKET VALUE: *$486 mil.*

▶ Born 7/16/23, Tulsa, Okla.; BS (petro. eng.), U. of Tex., 1944. Career path–engineering/technical, field operations; tenure–46 years, CEO 36 years. Compensation: 1989 salary & bonus, $512,000; ownership, 5,951,000 shares.[7] ▶ Driller could pump out some profits next year for the first time in almost a decade, thanks to foreign contracts, U. S. drilling surge. Swapped bank debt for stock. Founder's son worked way up. As safety director, developed firm's first accident-prevention plan, and company's now one of safest. Deeply religious.

PARKER HANNIFIN

PAUL G. SCHLOEMER

Cleveland, Ohio *216-531-3000*

SALES: *$2.5 bil.* PROFITS: *$103 mil.*

MARKET VALUE: *$1.1 bil.*

▶ Born 7/29/28, Cincinnati, Ohio; BS (mech. eng.), U. of Cincinnati, 1951; MBA, Ohio State, 1955. Career path–engineering/technical, production/manufacturing; tenure–33 years, CEO 7 years. Compensation: 1989 salary & bonus, $889,000; ownership, 50,000 direct, 62,000 indirect shares. ▶ Low-key manager of low-key parts maker. Pentagon cutbacks, torpid industrial demand hurt, but he's cheered by civilian aerospace, foreign markets. Finally past problems from Gull aerospace instrument buy. Big thrust: partnerships with big customers.

PARAMOUNT COMMUNICATIONS

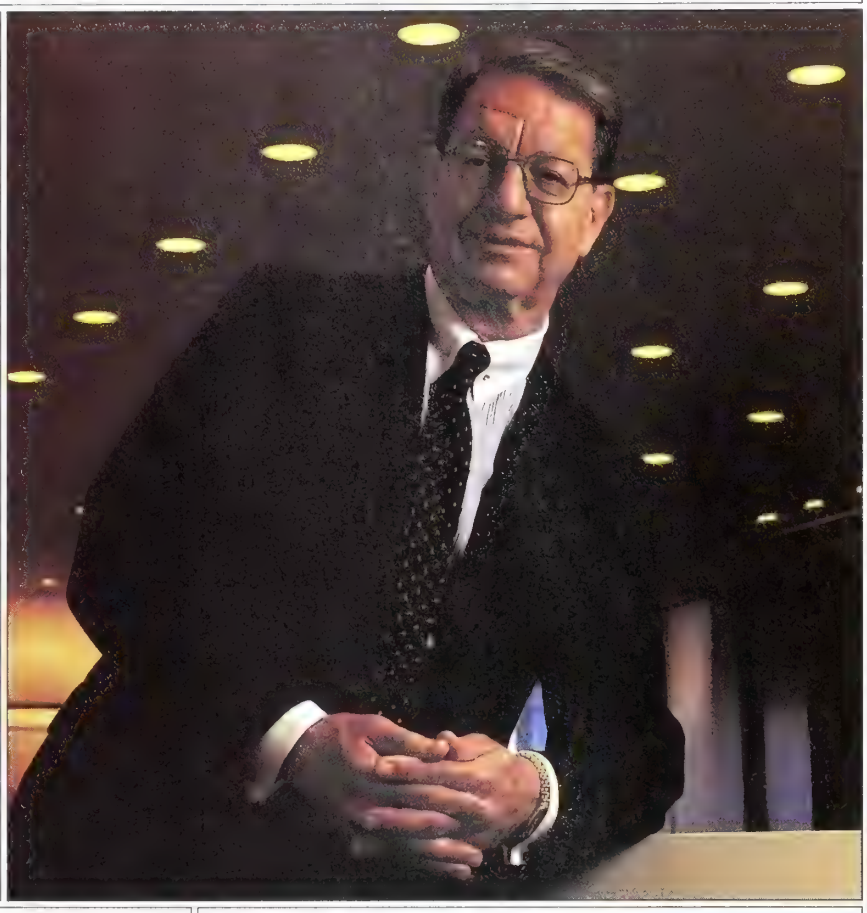
MARTIN S. DAVIS

New York, N. Y. *212-373-8000*

SALES: *$3.4 bil.* PROFITS: *$12 mil.*

MARKET VALUE: *$4.2 bil.*

▶ BORN 2/5/27, NEW YORK, N. Y.; ATTENDED CITY COLL. OF N. Y., NYU. CAREER PATH—MERCHANDISING/MARKETING, ADMIN., OPS., FINANCE; TENURE—33 YEARS, CEO 8 YEARS. COMPENSATION: 1989 SALARY & BONUS, $4,095,000; OWNERSHIP, 1,367,000 DIRECT, 74,000 INDIRECT SHARES. ▶ TOUGH ONE-TIME PRESS AGENT TRANSFORMED CHARLIE BLUHDORN'S GULF & WESTERN INTO A PURE MEDIA COMPANY. HOARDING $1.6 BILLION IN CASH FROM LAST YEAR'S SALE OF A FINANCIAL SERVICES DIVISION, HE'S BEEN ON THE PROWL FOR ACQUISITIONS AFTER LOSING HIS FIGHT FOR TIME INC. TO WARNER COMMUNICATIONS. EARNINGS WILL LOOK GOOD THIS YEAR COMPARED WITH LAST YEAR'S, WHICH WERE HIT BY PUBLISHING WRITE—OFFS, COSTS OF TAKEOVER BID. ONE TROUBLE SPOT: HE'S BEEN GAMBLING ON BIGGER-BUDGET MOVIES (*THE TWO JAKES, DAYS OF THUNDER*) THAT HAVEN'T ADDED TO THE BOTTOM LINE.



PENN CENTRAL

CARL HENRY LINDNER

Cincinnati, Ohio *513-579-6600*

SALES: *$1.7 bil.* PROFITS: *$174 mil.*

MARKET VALUE: *$1.4 bil.*

▶ Born 4/22/19, Dayton, Ohio. Career path–finance/accounting, entrepreneur; tenure–8 years, CEO 4 years. Compensation: 1989 salary & bonus, $668,000; ownership, 21,524,000 indirect shares.[8] ▶ Quirky boss has $1 billion war chest, $1.1 billion tax credits. Industrial grab-bag is acquisition vehicle for the enigmatic financier. Trouble is, he hasn't delivered much to investors. Doing more for himself: In September, announced a buyback of 11 million shares for $23 a share, very close to the stock's recent trading price.

PENNEY (J. C.)

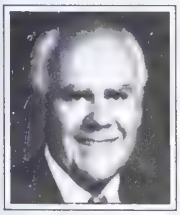
WILLIAM R. HOWELL

Dallas, Tex. *214-591-1000*

SALES: *$16.4 bil.* PROFITS: *$802 mil.*

MARKET VALUE: *$5.7 bil.*

▶ Born 1/3/36, Claremore, Okla.; BBA (business management), U. of Okla., 1958. Career path–merchandising/marketing; tenure–32 years, CEO 7 years. Compensation: 1989 salary & bonus, $1,089,000; ownership, 33,000 shares. ▶ Hobbyist woodworker's still trying to glue new veneer to No. 4 retailer. Ditched home electronics, sporting goods, in effort to shift from Sears wanna-be to upscale fashion, household goods store. But it's tough selling image to pricey suppliers. Still, earnings doubled in five years, and operations set record last year.



PENNSYLVANIA POWER & LIGHT

JOHN T. KAUFFMAN

Allentown, Pa. *215-770-5151*

SALES: *$2.4 bil.* PROFITS: *$353 mil.*

MARKET VALUE: *$3 bil.*

▶ Born 8/17/26, Weehawken, N. J.; BS (marine eng.), U. S. Merchant Marine Acad., 1946; BS (mech. eng.), Purdue, 1950. Career path–engineering/technical; tenure–40 years, CEO 4 months. Compensation: 1989 salary & bonus, $250,000; ownership, 4,000 shares. ▶ Smooth sailing on this nautical enthusiast's first year at helm. Electricity use is up, and he's continuing predecessor's aggressive marketing, economic development efforts. He depends on coal, nuclear for fuel. So he profits from power sales to other utilities as oil prices rise.

PENNZOIL

JAMES LEONARD PATE

Houston, Tex. *713-546-4000*

SALES: *$2 bil.* PROFITS: *$235 mil.*

MARKET VALUE: *$3.3 bil.*

▶ Born 9/6/35, Mt. Sterling, Ill.; AB, (business), Monmouth, 1963; MBA (business, econ.), Ind., 1964. Career path–finance/accounting; tenure–14 years, CEO 7 months. Compensation: 1989 salary & bonus, $269,000; ownership, 5,000 shares. ▶ Welcome to the soap opera. Finally invested windfall from Texaco suit in Chevron, which sued to keep him at bay. New CEO, who toiled at Commerce in Ford years, has problems: disappointing drilling, volatile sulfur profits, competition in motor oil. His response: layoffs, executive shuffle, more exploration.

PHOTOGRAPH JOHN S. ABBOTT

PEOPLES ENERGY

EUGENE A. TRACY

Chicago, Ill. *312-431-4000*

SALES: *$1.2 bil.* PROFITS: *$80 mil.*

MARKET VALUE: *$682 mil.*

▶ Born 12/14/27, Oak Park, Ill.; BS (business), Northwestern, 1951; MBA, DePaul, 1958. Career path–finance/accounting; tenure–39 years, CEO 9 years. Compensation: 1989 salary & bonus, $350,000; ownership, 29,000 direct, 11,000 indirect shares. ▶ Stagnant population, shrinking industry take steam out of growth at his gas utility. So he's going after new customers. Offering co-generation to hospitals, schools, plants. Pushing compressed gas for car fleets. And pitching gas-fired air-conditioning: Cook County Jail just installed a unit.

PEP BOYS-MANNY, MOE & JACK

MITCHELL G. LEIBOVITZ

Philadelphia, Pa. *215-229-9000*

SALES: *$799 mil.* PROFITS: *$35 mil.*

MARKET VALUE: *$833 mil.*

▶ Born 5/11/45, Philadelphia, Pa.; AB (lib. arts, 1966), MEd (1971), MBA (1973), Temple. Career path–finance/accounting; tenure–12 years, CEO 7 months. Compensation: 1989 salary & bonus, $533,000; ownership, 46,000 direct, 5,000 indirect shares. ▶ A big first-year repair job. He has this auto-parts and service retailer in the shop after earnings wheels fell off last year. Higher store count revved up sales, but purchasing and warehousing costs put brake on results. Redesigning stores, pushing into South. He's adding more nonfamily directors.

PEPSICO

WAYNE CALLOWAY

Purchase, N. Y. *914-253-2000*

SALES: *$15.2 bil.* PROFITS: *$901 mil.*

MARKET VALUE: *$19.8 bil.*

▶ Born 9/12/35, Elkin, N. C.; BBA (accounting), Wake Forest, 1959. Career path–finance/accounting; tenure–24 years, CEO 4 years. Compensation: 1989 salary & bonus, $1,505,000; ownership, 22,000 shares. ▶ Pouring it on. Profits fizzing–up 10% in first half at soda-pop, snack, and fast-food giant. Company now controls near 50% of own U. S. bottling. If only Kentucky Fried wasn't a featherweight, as eaters chicken out on fatty fried stuff. Pushing into huge European snack market. He's taken to the pulpit to talk about business ethics.

PERKIN-ELMER

HORACE G. MCDONELL

Norwalk, Conn. *203-762-1000*

SALES: *$784 mil.* PROFITS: *$47 mil.*

MARKET VALUE: *$754 mil.*

▶ Born 9/23/28, Manhasset, N. Y.; BA (physics), Adelphi, 1952. Career path–engineering/technical, marketing; tenure–38 years; CEO 6 years. Compensation: 1989 salary & bonus, $450,000; ownership, 60,000 shares.[8] ▶ He calls it the "new Perkin-Elmer." Some shareholders wonder whether it's a better one. After drastic restructuring, downsizing, he's focused on scientific instruments and materials. Now, foreign competition is stiff, results still drab. Retires on Dec. 1. Successor: President Gaynor Kelley. Enjoys fishing near his Cape Cod home.

PETRIE STORES

MILTON PETRIE

Secaucus, N. J. *201-866-3600*

SALES: *$1.3 bil.* PROFITS: *$32 mil.*

MARKET VALUE: *$953 mil.*

▶ Born 8/5/02, Salt Lake City, Utah. Career path–founder; tenure–58 years, CEO 58 years. Compensation: 1989 salary & bonus, $150,000; ownership, 28,194,000 direct, 187,000 indirect shares. ▶ Look for him at Manhattan's Regency Whist Club, playing bridge with Ace Greenberg, Larry Tisch, etc. Company owns 1,600-plus midmarket women's specialty stores, and recent performance puts it out of fashion with many investors. Crown jewel is 14% stake in Toys 'R' Us. Philanthropic–particularly toward widows of slain policemen. Dad was a cop.

PETROLITE

ELLIS L. BROWN

St. Louis, Mo. *314-241-8370*

SALES: *$291 mil.* PROFITS: *$7 mil.*

MARKET VALUE: *$301 mil.*

▶ Born 11/7/15, Duncan, Okla.; BS, U. of Okla., 1939. Career path–administration; tenure–24 years, CEO 2 years. Compensation: 1989 salary & bonus, $404,000; ownership, 30,000 direct, 71,000 indirect shares. ▶ Onetime independent oil man, now 74-year-old pioneer oil-field chemicals supplier. Diversified into fuel additives, industrial chemicals, oil-field equipment–a business that's current drag on earnings. He's sold off units, turned a profit with others. Basic lines strong overseas, could get better if Persian Gulf crisis sparks drilling boom.

PFIZER

EDMUND T. PRATT JR.

New York, N. Y. *212-573-2323*

SALES: *$5.7 bil.* PROFITS: *$681 mil.*

MARKET VALUE: *$11.7 bil.*

▶ Born 2/22/27, Savannah, Ga.; BS (elect. Duke, 1947; MBA, Wharton, 1949. Career path–finance/accounting, administration; tenure–26 years, CEO 18 years. Compensation: 1989 salary & bonus, $1,435,000; ownership, 94,000 di- 15,000 indirect shares. ▶ His drugmaker's once-anemic nings growth now on mend. New launches: Procardia XL (one- angina treatment) and Diflucan (for fungal infections of patients). Potential liability from Shiley heart valves seems below initial predictions. Avid athlete, New York booster.

PHELPS DODGE

DOUGLAS C. YEARLEY

Phoenix, Ariz. *602-234-8100*

SALES: *$2.7 bil.* PROFITS: *$267 mil.*

MARKET VALUE: *$2.1 bil.*

▶ Born 1/7/36, Oak Park, Ill.; BS (metallurgical eng.), Cornell, 1958. Career path–engin./tech., prod./mfg.; tenure–30 years, CEO 1 year. Compensation: 1989 salary & bonus, $836,000; ownership, 41,000 direct, 1,000 indirect shares. ▶ "A lifer," in his words. Low-key boss expects executives to share secretaries, shun limos, fly coach. Constantly scouts for acquisitions to add to world's second-largest copper producer. Also moving into noncopper businesses, such as truck wheels, to soften the blow of erratic prices. Likes classical music, bicycling.

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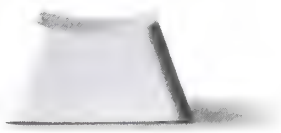

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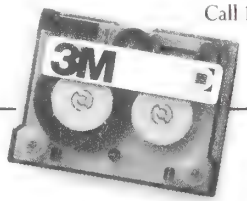

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ROBERT D. KUNISCH

Hunt Valley, Md. *301-771-3600*

SALES: *$1.9 bil.* PROFITS: *$57 mil.*

MARKET VALUE: *$414 mil.*

▶ Born 7/7/41, Norwalk, Conn.; BS, NYU, 1963. Career path–merchandising/marketing; tenure–19 years, CEO 3 years. Compensation: 1989 salary & bonus, $739,000; ownership, 18,000 direct, 12,000 indirect shares. ▶ At your service. Focusing on auto-fleet management, a growing line in Europe. Then there's executive relocation, mortgage banking, insurance brokerage, new link with West German highway authority to offer gas-and-repair credit cards. One line didn't pan out: Took $18.5 million writeoff to bail out of facilities management.

PHILADELPHIA ELECTRIC

JOSEPH F. PAQUETTE JR.

Philadelphia, Pa. *215-841-4000*

SALES: *$3.4 bil.* PROFITS: *$590 mil.*

MARKET VALUE: *$3.2 bil.*

▶ Born 8/24/34, Norwood, Mass.; BS (civil eng.), Yale, 1956. Career path–finance/accounting; tenure–34 years, CEO 2 years. Compensation: 1989 salary & bonus, $622,000; ownership, 2,000 shares. ▶ He got his four Peach Bottom and Limerick nuke plants restarted last year, and they're expected to produce nearly 70% of electricity. Now if only he could jump-start the regulators: He won less than half the $549 million rate hike sought for Limerick nukes, so he'll trim $100 million in costs through work force cuts. Slashed the dividend, too.

PHILIP MORRIS

HAMISH MAXWELL

New York, N. Y. *212-880-5000*

SALES: *$39 bil.* PROFITS: *$2.9 bil.*

MARKET VALUE: *$41.7 bil.*

▶ Born 8/24/26, Liverpool, England; BA, Cambridge, 1949. Career path–merchandising/marketing; tenure–36 years, CEO 6 years. Compensation: 1989 salary & bonus, $1,877,000; ownership, 567,000 direct, 75,000 indirect shares. ▶ Heavy smoker underwent coronary bypass surgery in May, seems to have rebounded well. Company remains in good health. Continues aggressive movement away from tobacco. After last year's acquisition of Kraft, food contributed 51% of '89 operating revenues. Strong cash position suggests more big acquisitions.

PHILLIPS PETROLEUM

C.J. SILAS

Bartlesville, Okla. *918-661-6600*

SALES: *$12.4 bil.* PROFITS: *$219 mil.*

MARKET VALUE: *$6.9 bil.*

▶ Born 4/15/32, Miami, Fla.; BS (chem. eng.), Ga. Tech, 1953. Career path–production/manufacturing, ops.; tenure–37 years, CEO 5 years. Compensation: 1989 salary & bonus, $1,240,000; ownership, 203,000 direct, 1,000 indirect shares. ▶ Call him C. J., call him Pete, but don't call him sedentary: Gregarious ex-basketball player is bird hunter, salmon fisherman, golfer. Analysts see potential for 10% annual earnings growth over next five years. Now, lower margins in chemicals have hurt net. He plans expansion in chemicals, oil production, marketing.

PIC 'N' SAVE

LEWIS BIEHL MERRIFIELD III

Dominguez, Calif. *213-537-9220*

SALES: *$475 mil.* PROFITS: *$31 mil.*

MARKET VALUE: *$319 mil.*

▶ Born 10/22/39, Philadelphia, Pa.; BS, UCLA, 1962; JD, USC Law, 1966. Career path–finance/accounting, legal; tenure–19 years, CEO 4 years. Compensation: 1989 salary & bonus, $975,000; ownership, 522,000 shares. ▶ Securities lawyer and martial arts buff–is there a connection?–joined close-out retailer after taking it public. Cleaned up old stores, pushed into new territories. But profitability slipped as company struggles with expansion and heavy discounting. Hounded by ex-Pickens aide David Batchelder, he'll step down by year-end.

PINNACLE WEST CAPITAL

RICHARD SNELL

Phoenix, Ariz. *602-234-1142*

SALES: *$1.5 bil.* PROFITS: *$157 mil.*

MARKET VALUE: *$1.4 bil.*

▶ Born 11/26/30, Phoenix, Ariz.; BA (law), Stanford, 1952; JD, Stanford Law, 1954. Career path–finance/accounting, legal; tenure–17 years, CEO 8 months. Compensation: 1989 salary & bonus, NA[6]; ownership, 34,000 shares. ▶ Taking apart holding company created by predecessor, Keith Turley. Agreed to inject $465 millon into MeraBank subsidiary before it was taken over by government. One bit of good news: Just squeaked out of takeover try of his Arizona Public Service utility by Oregon-based PacifiCorp in return for power-swapping deal.

PIONEER HI-BRED INTERNATIONAL

THOMAS N. URBAN

Des Moines, Iowa *515-245-3500*

SALES: *$867 mil.* PROFITS: *$82 mil.*

MARKET VALUE: *$1.2 bil.*

▶ Born 5/26/34, Des Moines, Iowa; AB (government, 1956), MBA (1960), Harvard. Career path–merchandising/marketing; tenure–30 years, CEO 8 years. Compensation: 1989 salary & bonus, $459,000[1]; ownership, 103,000 direct, 72,000 indirect shares. ▶ Normally a natty dresser, he often trades pinstripes for dungarees to visit farmers. Seed company plows own after troublesome 1980s diversification, but competition makes big profits hard to come by. Wants to take advantage of changes in use of corn, now so often used to make oils, starch.

PITNEY BOWES

GEORGE B. HARVEY

Stamford, Conn. *203-356-5000*

SALES: *$2.9 bil.* PROFITS: *$180 mil.*

MARKET VALUE: *$3 bil.*

▶ Born 4/7/31, New Haven, Conn.; BS (accounting), Wharton, 1954. Career path–finance/accounting, gen. mgmt.; tenure–34 years, CEO 8 years. Compensation: 1989 salary & bonus, $863,000; ownership, 122,000 direct, 30,000 indirect shares. ▶ Trying to put a high-tech stamp on old-line company. By 1992 all mailing, shipping, dictation gear will use software to communicate with other machines. A socially conscious up manager: Wants women and minorities to hold 35% of his managerial slots; started remedial reading classes for blue-collar workers.

PITTSTON

PAUL WOLFF DOUGLAS

Greenwich, Conn. *203-622-0900*

SALES: *$1.6 bil.* PROFITS: *$4 mil.*

MARKET VALUE: *$707 mil.*

▶ Born 9/12/26, Springfield, Mass.; AB (intl. econ.), Princeton, 1948. Career path–merchandising/marketing; tenure–7 years, CEO 7 years. Compensation: 1989 salary & bonus, $675,000; ownership, 10,000 shares.[8] ▶ His conglomerate owns Brinks guard service, Burlington Air Express–but best-known for its huge Appalachian coal operations. Just settled a long, nasty union feud (protestors marched near his suburban headquarters). Now what? He wants to continue automating his mines, just might spin off Brinks, Burlington.

PITTWAY

KING W. HARRIS

Northbrook, Ill. *708-498-1260*

SALES: *$848 mil.* PROFITS: *$33 mil.*

MARKET VALUE: *$438 mil.*

▶ Born 4/10/43, St. Paul, Minn.; BA (econ., 1965), MBA (1969), Harvard. Career path–merchandising/marketing; tenure–19 years, CEO 3 years. Compensation: 1989 salary & bonus, $476,000[5]; ownership, 72,000 direct, 57,000 indirect shares. ▶ Scion of controlling family, ex-Peace Corps volunteer. Runs mini-conglomerate big in fire protection. First Alert smoke alarm line is hot product, but he's looking at commercial alarms where margins are fatter. Also into trade magazines via Penton. Hopes his pump sprayer line will benefit as use of aerosols declines.

PLAINS PETROLEUM

JAMES A. MILLER

Lakewood, Colo. *303-969-9325*

SALES: *$42 mil.* PROFITS: *$16 mil.*

MARKET VALUE: *$305 mil.*

▶ Born 8/7/34, Lincoln, Neb.; BA (geology), Baylor, 1956. Career path–finance/accounting; tenure–2 years, CEO 1 year. Compensation: 1989 salary & bonus, $193,000; ownership, 4,000 direct, 1,000 indirect shares.[7] ▶ Former Baylor football player, Air Force pilot, he heads gas producer that's KN Energy spin-off. Sells 85% of output to KN and (not surprisingly) wants to broaden customer base, reduce dependence on KN. Recently acquired Permian Basin oil reverves. Watch out: Negative Supreme Court ruling could force him to refund $13.5 million.

PNC FINANCIAL

THOMAS HENRY O'BRIEN

Pittsburgh, Pa. *412-762-2000*

SALES: *$4.6 bil.* PROFITS: *$377 mil.*

MARKET VALUE: *$2.3 bil.*

▶ Born 1/16/37, Pittsburgh, Pa.; BS (commerce), Notre Dame, 1958; MBA, Harvard, 1962. Career path–finance/accounting; tenure–28 years, CEO 5 years. Compensation: 1989 salary & bonus, $1,489,000[12]; ownership, 36,000 shares. ▶ Banking's golden boy facing first crisis. Unexpected loan losses turned up last year, regulators looking for more. Vaunted M&A strategy under fire: Critics say acquired management gets too much rein. Slow to consolidate back office operations. Tried to reassert himself with bid for First Fidelity, but it flopped.

POLAROID

ISRAEL MACALLISTER BOOTH

Cambridge, Mass. *617-577-2000*

SALES: *$1.9 bil.* PROFITS: *$145 mil.*

MARKET VALUE: *$1.6 bil.*

▶ Born 12/7/31, Atlanta, Ga.; BS (mech. eng., 1955), MBA (1958), Cornell. Career path–engineering/technical, operations; tenure–32 years, CEO 5 years. Compensation: 1989 salary & bonus, $392,000[1]; ownership, 6,000 shares. ▶ Down-to-earth chief waiting to see what develops from patent-infringement case against Kodak. Could win billions. To boost lagging demand for instant pictures, he's launched a $60 million advertising effort touting new applications. Trying broader distribution methods. Installed younger management team.

POLICY MANAGEMENT SYSTEMS

G. LARRY WILSON

Columbia, S. C. *803-735-4000*

SALES: *$266 mil.* PROFITS: *$27 mil.*

MARKET VALUE: *$716 mil.*

▶ Born 7/31/46, Greensboro, N. C.; BS (marketing, 1968), MBA (1970), U. of S. C. Career path–engineering/technical, merchandising/marketing; tenure–24 years, CEO 9 years. Compensation: 1989 salary & bonus, $507,000; ownership, 93,000 shares. ▶ His software helps property/casualty agents write policies–so well that onetime parent Siebels Bruce spun off company, and IBM bought 20%. To keep growing, he's acquired firm that provides software for health insurers. Also, pushing foreign sales. Off-hours, he's into old cars–and a new house.

PORTLAND GENERAL

KEN L. HARRISON

Portland, Ore. *503-464-8000*

SALES: *$797 mil.* PROFITS: *$3 mil.*

MARKET VALUE: *$755 mil.*

▶ Born 10/14/42, Bakersfield, Calif.; BS (math., physics, chem., 1964), MA (psych., sociology, 1966), Ore. State. Career path–finance/accounting; tenure–16 years, CEO 2 years. Compensation: 1989 salary & bonus, $355,000; ownership, 3,000 shares.[7] ▶ Heads troubled utility bedeviled by unfavorable regulatory rulings, upcoming referendum to shut down its only nuclear plant (off-line 82 days last year). Now-shuttered real estate development arm lost $45 million in five years. Team-oriented manager. Avid golfer, enjoys fine wine.

POTLATCH

RICHARD BLAINE MADDEN

San Francisco, Calif. *415-576-8800*

SALES: *$1.2 bil.* PROFITS: *$137 mil.*

MARKET VALUE: *$988 mil.*

▶ Born 4/27/29, Short Hills, N. J.; BS (eng.), Princeton, 1951; JD, U. of Mich. Law, 1956; MBA, NYU, 1959. Career path–finance/accounting, production/manufacturing; tenure–19 years, CEO 19 years. Compensation: 1989 salary & bonus, $861,000; ownership, 34,000 direct, 10,000 indirect shares. ▶ No-frills fellow has just 25 headquarters employees. Needs to keep the ship steady: Forest products boom ending just as he embarks on costly modernization and expansion. Raw materials costs surging, thanks in part to environmentalists. Expect a profit dip.

POTOMAC ELECTRIC POWER

EDWARD FRANKLIN MITCHELL

Washington, D. C. *202-872-2000*

SALES: *$1.4 bil.* PROFITS: *$215 mil.*

MARKET VALUE: *$1.9 bil.*

▶ Born 12/23/31, Harrisonburg, Va.; BEE, U. of Va., 1956; MEA (eng. admin.), George Washington, 1960. Career path–engineering/technical; tenure–34 years, CEO 1 year. Compensation: 1989 salary & bonus, $487,000; ownership, 30,000 shares. ▶ When the capital sizzles, he earns. So the cool summer of 1990 will hurt profits. There was a glimmer of hope as D. C. granted a rate increase for the first time in six years, but the amount fell far short of his request. Chesapeake Bay boatman. Active in efforts to revitalize the bay and in antidrug campaigns.

PPG INDUSTRIES

VINCENT A. SARNI

Pittsburgh, Pa. *412-434-3131*

SALES: *$5.7 bil.* PROFITS: *$465 mil.*

MARKET VALUE: *$4.9 bil.*

▶ Born 7/11/28, Bayonne, N. J.; BS (business admin.), U. of R. I., 1949. Career path–merchandising/marketing; tenure–22 years, CEO 6 years. Compensation: 1989 salary & bonus, $1,095,000; ownership, 33,000 shares. ▶ Hardnosed and focused, he's grappling with some big environmental concerns. Paint unit must pay New Jersey $82.5 million in fines and cleanup costs for chromium waste at 53 sites. Analysts fear there may be more. Despite softness in auto, construction markets, he's on track for goal of 18% ROE and 4% sales growth through '94.

PRECISION CASTPARTS

EDWARD HANES COOLEY

Portland, Ore. *503-777-3881*

SALES: *$457 mil.* PROFITS: *$29 mil.*

MARKET VALUE: *$515 mil.*

▶ Born 9/29/22, Philadelphia, Pa.; BS (mech. eng.), Swarthmore, 1943; MBA, Harvard, 1947. Career path–production/manufacturing; tenure–34 years, CEO 34 years. Compensation: 1989 salary & bonus, $340,000; ownership, 2,808,000 direct, 18,000 indirect shares. ▶ Demand for his jet engine parts is soaring–profits should, too, now that development costs for new engines and parts are behind him. Problem: an unusual number of sex-discrimination, workplace-safety complaints. He's an avid outdoorsman, with successor in place, COO William McCormick.

PREMARK INTERNATIONAL

WARREN L. BATTS

Deerfield, Ill. *708-405-6000*

SALES: *$2.6 bil.* PROFITS: *$78 mil.*

MARKET VALUE: *$519 mil.*

▶ Born 9/4/32, Norfolk, Va.; BS (elect. eng.), Ga. Tech, 1961; MBA, Harvard, 1963. Career path–administration; tenure–10 years, CEO 4 years. Compensation: 1989 salary & bonus, $695,000; ownership, 159,000 shares. ▶ Professorial manager (known for Mead turnaround) whose report card is still out. U. S. sales down, European manufacturing costs up at his core Tupperware business. But while he waits for a break, he's expanding in decorative building products. Just bought ceramic tile company, which fits well with his market leader in laminates.

PREMIER INDUSTRIAL

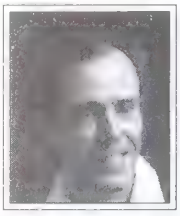
MORTON L. MANDEL

Cleveland, Ohio *216-391-8300*

SALES: *$596 mil.* PROFITS: *$70 mil.*

MARKET VALUE: *$1.4 bil.*

▶ Born 9/19/21, Cleveland, Ohio; attended Case Western Reserve. Career path–administration; tenure–44 years, CEO 20 years. Compensation: 1989 salary & bonus, $408,000; ownership, 2,559,000 indirect shares.[8] ▶ His performance lives up to company name. Distributor of electronic components, wide range of other products posted record earnings last year–and 29 out of past 31. Flexible cost structure allows quick cutbacks when economy slumps. The youngest of three founding brothers, he shows no signs of stepping down.



PRICE

ROBERT EDWARD PRICE

San Diego, Calif. *619-581-4600*

SALES: *$5 bil.* PROFITS: *$117 mil.*

MARKET VALUE: *$1.6 bil.*

▶ Born 8/10/42, San Diego, Calif.; BA (business), Pomona, 1964. Career path–merchandising/marketing; tenure–15 years, CEO 15 years. Compensation: 1989 salary & bonus, $249,000; ownership, 1,322,000 direct, 1,385,000 indirect shares. ▶ Low-budget innovator now has 50 cavernous membership-only cash-and-carry discount "clubs." Serves 6 million customers, mostly in California but moving east. Added pizza and yogurt to in-store hot dog stands to encourage shoppers to linger. New ventures in furniture, photos, optical products.

PRICE (T. ROWE) ASSOCIATES

GEORGE J. COLLINS

Baltimore, Md. *301-547-2000*

SALES: *$160 mil.* PROFITS: *$30 mil.*

MARKET VALUE: *$305 mil.*

▶ Born 7/31/40, West Haven, Conn.; BA (history, econ.), Va. Mil. Inst., 1962; MBA (finance), American, 1970. Career path–finance/accounting; tenure–19 years, CEO 6 years. Compensation: 1989 salary & bonus, $765,000; ownership, 920,000 [illegible], 105,000 indirect shares. ▶ Competitive. Former semipro pitcher races sailboats, swims in yearly race across Chesapeake. Tough competition, untimely writeoffs, sliding stocks pressure profits at his mutual fund company. Response: push more global funds, angle into pension and benefits markets.

PRIMERICA

SANFORD I. WEILL

New York, N. Y. *212-891-8900*

SALES: *$5.7 bil.* PROFITS: *$289 mil.*

MARKET VALUE: *$3.1 bil.*

▶ Born 3/16/33, Brooklyn, N. Y.; BA (liberal arts), Cornell, 1955. Career path–finance/accounting; tenure–4 years, CEO 4 years. Compensation: 1989 salary & bonus, $1,536,000; ownership, 382,000 direct, 25,000 indirect shares. ▶ Dreams of powerhouse to rival old employer American Express. As many on Wall Street stumble, he's enjoying record income from insurance, consumer finance, securities. But A. L. Williams brokerage woes throw cloud over insurance unit. Inveterate dealster: almost snagged AmEx's troubled Shearson.

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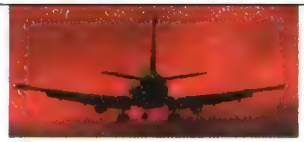

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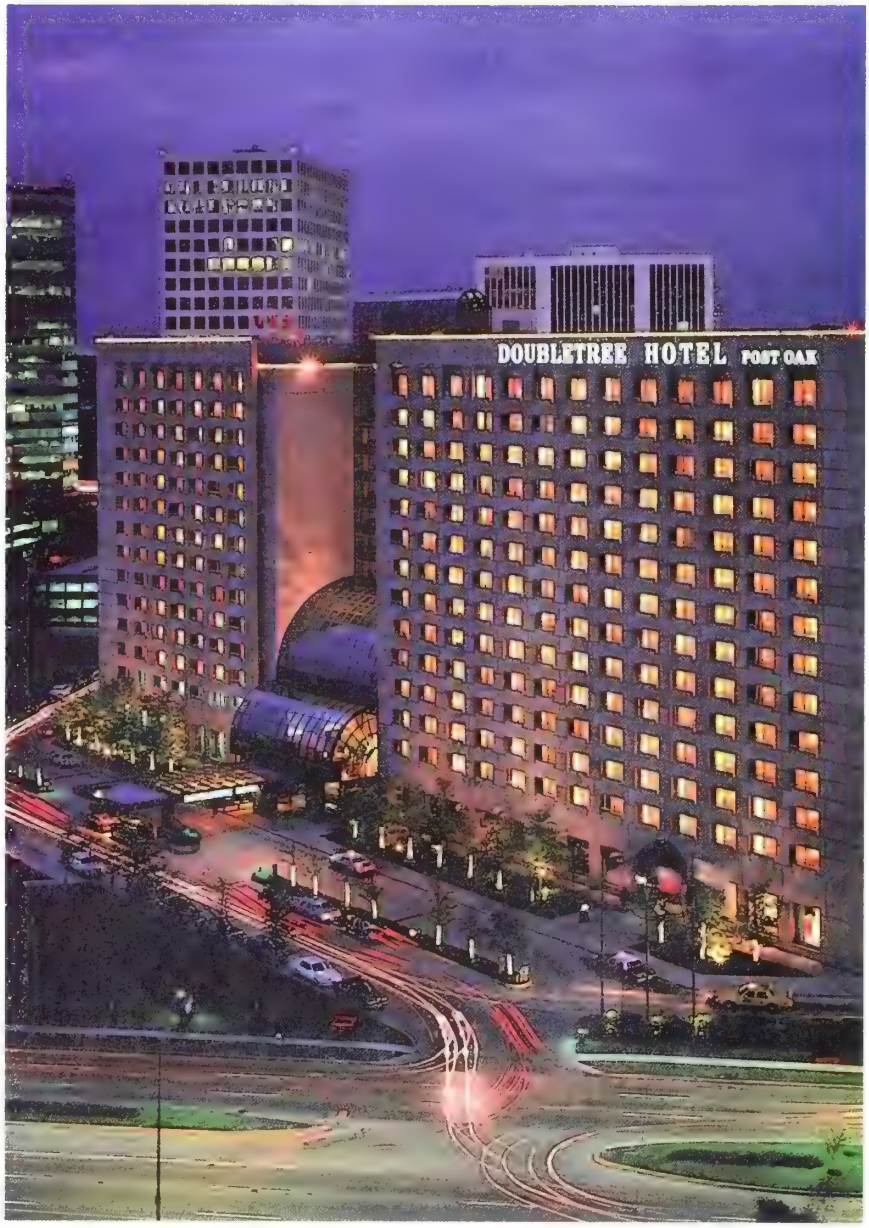

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PROCTER & GAMBLE

EDWIN LEWIS ARTZT

Cincinnati, Ohio *513-983-1100*

SALES: *$24.1 bil.* PROFITS: *$1.6 bil.*

MARKET VALUE: *$26.7 bil.*

▶ Born 4/15/30, New York, N. Y.; BS, U. of Ore., 1951. Career path–marketing/operations; tenure–37 years, CEO 9 months. Compensation: 1989 salary & bonus, $1,436,000; ownership, 60,000 shares. ▶ Corporate lifer rode to top running overseas operations. Goal: further globalize maker of Crest, Tide, Pampers. Returns sparkle. But wants to turn around juice business here as he did in Japan, where it's a $1 billion business. Nowhere near FDA nod for ballyhooed Olestra fat substitute. Tough competitor attended college on basketball scholarship.

PROGRESSIVE

PETER BENJAMIN LEWIS

Mayfield Heights, Ohio *216-464-8000*

SALES: *$1.4 bil.* PROFITS: *$78 mil.*

MARKET VALUE: *$1.2 bil.*

▶ Born 11/11/33, Cleveland, Ohio; BA (public/intl. affairs), Princeton, 1955. Career path–insurance; tenure–35 years, CEO 26 years. Compensation: 1989 salary & bonus, $2,052,000; ownership, 3,410,000 direct, 266,000 indirect shares. ▶ Definitely not risk averse, he makes his money insuring drivers rejected by other companies: motorcyclists. Cleverly set up reserves in advance of California rate-rollback, which hit '89 earnings. But this year's earnings are revving up. For corporate fleet, picked Volvo 240, Ford Taurus based on safety records.

PROMUS

MICHAEL D. ROSE

Memphis, Tenn. *901-762-8600*

SALES: *$945 mil.* PROFITS: *$155 mil.*

MARKET VALUE: *$430 mil.*

▶ Born 3/2/42, Akron, Ohio; BBA (accounting), U. of Cincinnati, 1963; JD, Harvard Law, 1966. Career path–legal, real estate; tenure–16 years, CEO 9 years. Compensation: 1989 salary & bonus, $698,000; ownership, 569,000 direct, 4,000 indirect shares. ▶ Runs what's left (Hampton Inns, Embassy Suites, Harrah's) after selling Holiday Inns to Britain's Bass group. Corporate results have yet to live up to name, pronounced "promise." At home, into big-time tennis, swimming; globe-girdling fisherman. A daughter, 12, is a potential Olympic swimmer.

PROVIDENT LIFE & ACCIDENT

WINSTON W. WALKER

Chattanooga, Tenn. *615-755-1011*

SALES: *$2.6 bil.* PROFITS: *$148 mil.*

MARKET VALUE: *$864 mil.*

▶ Born 10/19/43, Traverse City, Mich.; BA (math., Russian), Tulane, 1965; PhD (math.), U. of Ga., 1969. Career path–finance/accounting; tenure–16 years, CEO 2 years. Compensation: 1989 salary & bonus, $445,000; ownership, 4,000 shares.[7] ▶ Oops! Stock dropped 13% when insurer revealed mortgage loan delinquencies underestimated by clerical error. Yet emphasis on profits rather than market share paying off. Also turned around troubled employee-benefits business, focusing on price controls. Owns his own plane, speaks Russian, plays piano.

PSI RESOURCES

JAMES E. ROGERS JR.

Plainfield, Ind. *317-839-9611*

SALES: *$1.1 bil.* PROFITS: *$138 mil.*

MARKET VALUE: *$808 mil.*

▶ Born 9/20/47, Birmingham, Ala.; BBA (business), U. of Ky., 1970; JD, U. of Ky. Law, 1974. Career path–legal; tenure–2 years, CEO 2 years. Compensation: 1989 salary & bonus, $361,000; ownership, 4,000 shares. ▶ Unusual background (ex-police reporter, consumer advocate, triathlon competitor) gives him unusual ideas for a utility executive. Asking regulators to let him wholesale excess capacity now in order to finance construction of new peak capacity he'll need in the future. Also wants to diversify, reduce dependence on high-sulfur coal.

PUBLIC SERVICE CO. OF COLORADO

DELWIN D. HOCK

Denver, Colo. *303-571-7511*

SALES: *$1.7 bil.* PROFITS: *$149 mil.*

MARKET VALUE: *$1.1 bil.*

▶ Born 1/19/35, Colorado Springs, Colo.; BS (business), U. of Colo., 1956. Career path–finance/accounting; tenure–28 years, CEO 2 years. Compensation: 1989 salary & bonus, $303,000; ownership, 7,000 direct, 2,000 indirect shares. ▶ With local economy still in the dumps, he's looking beyond Colorado gas and electricity. Joined in developing pipeline to sell gas to California, Midwest, looking into cogeneration and alternative fuels. Looking for partners to convert his closed nuke to gas-fired plant: He'll need the power by 1995.

PUBLIC SERVICE CO. OF NEW MEXICO

JOHN T. ACKERMAN

Albuquerque, N. M. *505-848-2700*

SALES: *$915 mil.* PROFITS: *$83 mil.*

MARKET VALUE: *$439 mil.*

▶ Born 8/12/41, Cleveland, Ohio; BS (elect.), U. of N. M., 1956; MS (utility mgmt.), N. M. State, 1971. Career path–engineering/technical; tenure–19 years, CEO 4 hs. Compensation: 1989 salary & bonus, $145,000; owner- 9,000 shares. ▶ New on the job after predecessor abruptly ed–at 56–with diversification dreams in ruins. His big chal- : excess capacity with no Sunbelt boom to soak it up. And roblems still dog him, as do rumors that the company's up Likes to restore old cars, collect books on auto history.

PUBLIC SERVICE ENTERPRISE GROUP

E. JAMES FERLAND

Newark, N. J. *201-430-7000*

SALES: *$4.8 bil.* PROFITS: *$571 mil.*

MARKET VALUE: *$5 bil.*

▶ Born 3/19/42, Boston, Mass.; BS (mech. eng.), U. of Me., 1964; MBA, U. of New Haven, 1976. Career path–engineering/technical, finance/accounting; tenure–4 years, CEO 4 years. Compensation: 1989 salary & bonus, $685,000; ownership, 7,000 direct, 6,000 indirect shares. ▶ Unseasonably warm winter hurt earnings at state's largest utility. But things look good on the nonutility side, including oil and gas, investments. Goal: boosting them to about 10% of earnings by 1991. Troubled Peach Bottom 2 and 3 nuke plants on line.

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*R.L. Polk & Co. Statistics, July 1, 1988 **Validated by the Federation Internationale De L'Automobile

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PUGET SOUND POWER & LIGHT

JOHN W. ELLIS

Bellevue, Wash. *206-454-6363*

SALES: *$888 mil.* PROFITS: *$118 mil.*

MARKET VALUE: *$1 bil.*

▶ Born 9/14/28, Seattle, Wash.; BS, U. of Wash., 1950; JD, U. of Wash. Law, 1953. Career path–legal; tenure–20 years, CEO 14 years. Compensation: 1989 salary & bonus, $371,000; ownership, 16,000 shares.[8] ▶ Sailor with his racing jib always set. His utility, which serves hot growth areas of the Puget Sound region, is Northwest's fastest growing. No wonder he's Mr. Conservation. Also wants to build 23-mile transmission link to BC Hydro. That would cut costs, help with supply crunch. Led college dance band, still tickles occasional ivories.

QUAKER OATS

WILLIAM DEAN SMITHBURG

Chicago, Ill. *312-222-7111*

SALES: *$5.7 bil.* PROFITS: *$203 mil.*

MARKET VALUE: *$3.2 bil.*

▶ Born 7/9/38, Chicago, Ill.; BS (econ., marketing), DePaul, 1960; MBA (marketing, finance), Northwestern, 1961. Career path–merchandising/marketing, finance/accounting; tenure–24 years, CEO 9 years. Compensation: 1989 salary & bonus, $1,282,000; ownership, 191,000 direct, 12,000 indirect shares. ▶ Production snafus, costly new-toy flops pushed Fisher-Price into red. He's spinning it off. New questions about oat bran and cholesterol crimped cereal sales. Bright spot: gains for Gatorade, acquired partly because he's an athlete and likes it.

QUALITY FOOD CENTERS

JACK CROCO

Bellevue, Wash. *206-454-8107*

SALES: *$319 mil.* PROFITS: *$14 mil.*

MARKET VALUE: *$321 mil.*

▶ Born 10/5/25, Emmett, Idaho; BS, Yale, 1949. Career path–merchandising/marketing; tenure–32 years, CEO 32 years. Compensation: 1989 salary & bonus, $325,000; ownership, 67,000 direct, 958,000 indirect shares.[8] ▶ Learned supermarket business at Albertson's, now runs big independent food chain heavy on customer service, quality. Part of group that took company private in 1986 LBO, spun off public stake in 1987 to raise funds to expand, remodel. Sets up near competitor Safeway to encourage higher traffic, service, selection comparisons.

QUANTUM

STEPHEN M. BERKLEY

Milpitas, Calif. *408-432-1100*

SALES: *$446 mil.* PROFITS: *$47 mil.*

MARKET VALUE: *$452 mil.*

▶ Born 4/19/44, Millburn, N. J.; BA (econ.), Colgate, 1966; MBA (gen. mgmt.), Harvard, 1968. Career path–merchandising/marketing; tenure–9 years, CEO 3 years. Compensation: 1989 salary & bonus, $500,000; ownership, 44,000 shares. ▶ Former management consultant is a low-key boss who likes to hike and jog in off hours. Once a follower, disk-drive company's now a leader since he capitalized on shift to smaller, 3½-inch drives. High productivity thanks to automated plant, ties to Japan's MKE. As a result, margins are unusually high.

QUANTUM CHEMICAL

JOHN HOYT STOOKEY

New York, N. Y. *212-949-5000*

SALES: *$2.6 bil.* PROFITS: *$114 mil.*

MARKET VALUE: *$292 mil.*

▶ Born 1/29/30, New York, N. Y.; BA, Amherst, 1952; BS (eng.), Columbia, 1955. Career path–administration; tenure–15 years, CEO 4 years. Compensation: 1989 salary & bonus, $1,286,000; ownership, 72,000 shares. ▶ Canoeing fan has been paddling through some choppy waters. Repositioned company in polyethylene and propane retailing, businesses that took a drubbing last year. This year hasn't been much better. He remains committed to $1.3 billion capital investment program to double assets. Centerpiece: new ethylene cracker in Houston.

QUESTAR

R.D. CASH

Salt Lake City, Utah *801-534-5000*

SALES: *$509 mil.* PROFITS: *$50 mil.*

MARKET VALUE: *$673 mil.*

▶ Born 6/27/42, Shamrock, Tex.; BS (eng.), Tex. Tech, 1966. Career path–engineering/technical; tenure–14 years, CEO 9 years. Compensation: 1989 salary & bonus, $315,000; ownership, 18,000 shares. ▶ Utah's birth rate is highest in U. S., and his company's natural gas helps keep all those babies warm. Mideast turmoil and pollution controls make gas look good, too, so he's hiking capital spending for drilling, pipeline building, distribution. Out with the old: Sold brick business this year. In with the new: Formed telecom unit.

RAYCHEM

ROBERT JOSEPH SALDICH

Menlo Park, Calif. *415-361-3333*

SALES: *$1.1 bil.* PROFITS: *$36 mil.*

MARKET VALUE: *$771 mil.*

▶ Born 6/7/33, New York, N. Y.; BS (chem. ng.), Rice, 1956; MBA, Harvard, 1961. Career path–engineering/ nical; tenure–27 years, CEO 6 months. Compensation: 1989 lary & bonus, $566,000; ownership, 70,000 shares. ▶ Second- r CEO battling big losses at maker of aerospace, automotive, tronic systems. Took $90 million charge for layoffs and con- lation. Aiming to sell two lackluster units. But defense cut- could hurt. And losses continue at fiber-optics venture. Off ails on windy San Francisco Bay.

RAYTHEON

THOMAS L. PHILLIPS

Lexington, Mass. *617-862-6600*

SALES: *$8.8 bil.* PROFITS: *$529 mil.*

MARKET VALUE: *$4 bil.*

▶ Born 5/2/24, Istanbul, Turkey; BS (1947), MS (elect. eng., 1948), Va. Polytechnic Inst. Career path–engineering/technical; tenure–42 years, CEO 22 years. Compensation: 1989 salary & bonus, $1,215,000; ownership, 136,000 shares. ▶ Not fretting about defense cuts, thanks to his electronics, commercial businesses, now 40% of sales. Beech Aircraft's backlog growing, appliance sales up. One soft target: $40 billion Milstar communications satellite–for use after nuclear war. Scheduled to retire at yearend to enjoy New Hampshire lakefront home.

RALSTON PURINA

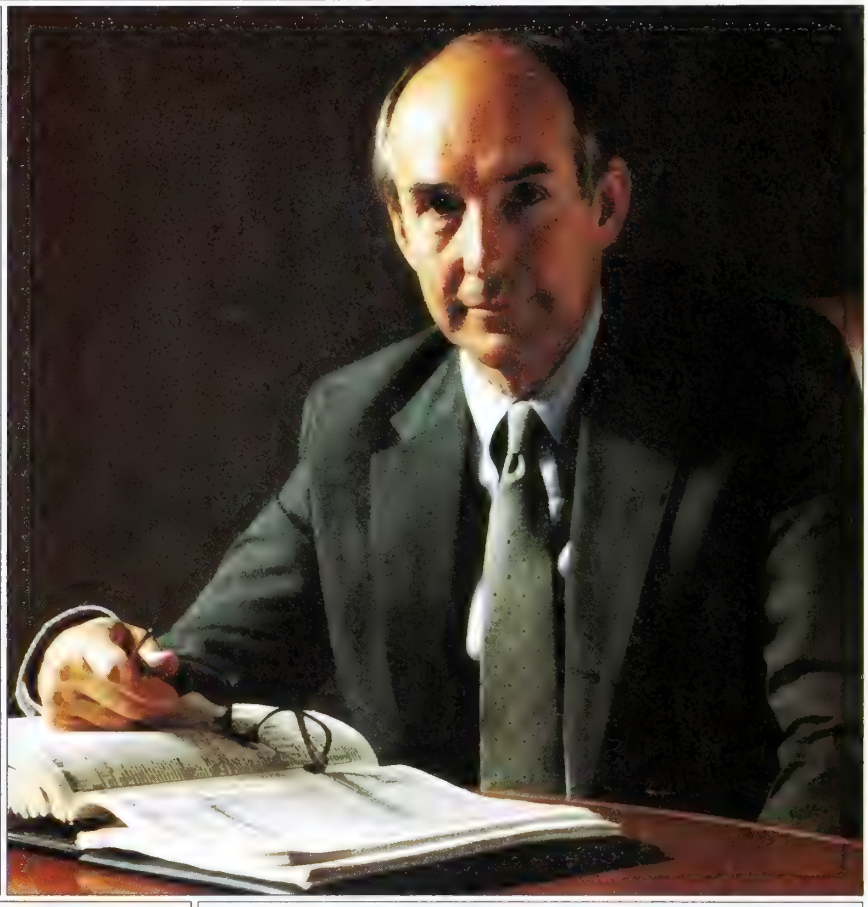
WILLIAM P. STIRITZ

St. Louis, Mo. *314-982-1000*

SALES: *$6.7 bil.* PROFITS: *$351 mil.*

MARKET VALUE: *$5.2 bil.*

▶ BORN 7/1/34, JASPER, ARK.; BS (BUSINESS), NORTHWESTERN, 1958; MA (HISTORY), ST. LOUIS, 1968. CAREER PATH—MERCHANDISING/MARKETING; TENURE—26 YEARS, CEO 9 YEARS. COMPENSATION: 1989 SALARY & BONUS, $1,064,000; OWNERSHIP, 678,000 DIRECT, 9,000 INDIRECT SHARES. ▶ MADE HIS REPUTATION BY PRESIDING OVER TOUGH FINANCIAL RESTRUCTURING. BUT NOW EARNING KUDOS AS A SAVVY MARKETER. HE'S THE MAN WHO BROUGHT YOU BARBIE AND TEENAGE MUTANT NINJA TURTLES CEREALS. THESE AND OTHER HOT BRANDS HAVE BOOSTED MARKET SHARE IN BREAKFAST FARE. HE'S ALSO SUCCESSFULLY PROMOTING EVEREADY'S RECHARGEABLE BATTERY LINE AS "ENVIRONMENTALLY SOUND." ROLLING OUT SPECIALTY PET FOODS (ONE LINE FOR OLDER CATS WILL DEBUT THIS FALL). AT 1989 ACQUISITION BEECH-NUT, HIS OBJECTIVE IS TO IMPROVE MARGINS.



READERS DIGEST ASSOCIATION

GEORGE V. GRUNE

Pleasantville, N. Y. *914-238-1000*

SALES: *$2 bil.* PROFITS: *$176 mil.*

MARKET VALUE: *$2.9 bil.*

▶ Born 7/18/29, White Plains, N. Y.; BS (English), Duke, 1952. Career path–sales, marketing; tenure–30 years, CEO 6 years. Compensation: 1989 salary & bonus, $1,100,000[7]; ownership, 312,000 shares. ▶ Very demanding former Marine and ad salesman has radically changed culture, financial shape of publishing giant. Once secretive and patriarchal, he focused it on the bottom line, took it public. Expects most growth in books, home entertainment. Trouble spot: specialty magazines. He played football, edited literary magazine at Duke.

REEBOK INTERNATIONAL

PAUL FIREMAN

Stoughton, Mass. *617-341-5000*

SALES: *$1.8 bil.* PROFITS: *$175 mil.*

MARKET VALUE: *$1.5 bil.*

▶ Born 2/14/44, Cambridge, Mass.; attended Boston U. Career path–merchandising/marketing, sales; treasurer; tenure–11 years, CEO 4 years. Compensation: 1989 salary & bonus, $14,606,000; ownership, 8,413,000 direct, 9,042,000 indirect shares. ▶ The race is to the swift, all right. His sneaker company lost first place to Nike despite buoyant profits. So he cut loose his president, shook up the lineup. Apparel has been sagging, but ultra-high-tech Pump shoe a winner. His cloyingly sweet employment contract now a bit tarter. A topnotch golfer.

RELIANCE GROUP HOLDINGS

SAUL P. STEINBERG

New York, N. Y. *212-909-1100*

SALES: *$4 bil.* PROFITS: *$22 mil.*

MARKET VALUE: *$382 mil.*

▶ Born 8/13/39, Brooklyn, N. Y.; BS (econ.), Wharton, 1959. Career path–founder; tenure–29 years, CEO 29 years. Compensation: 1989 salary & bonus, $6,265,000; ownership, 32,120,000 direct, 13,049,000 indirect shares. ▶ Once a feared raider, now best known for his soirees. You have to admire the artistry of art collector's latest deal: Sold General Casualty to Swiss insurer for three times book. Continuing shift of property casualty business toward commercial accounts. Worrisome areas: junk portfolio, Frank B. Hall insurance brokerage.

REPUBLIC NEW YORK

WALTER HERMAN WEINER

New York, N. Y. *212-525-5000*

SALES: *$2.6 bil.* PROFITS: *$24 mil.*

MARKET VALUE: *$1.5 bil.*

▶ Born 8/29/30, Brooklyn, N. Y.; BA, U. of Mich., 1952; JD, U. of Mich. Law, 1953. Career path–finance/accounting, legal; tenure–11 years, CEO 11 years. Compensation: 1989 salary & bonus, $610,000[1]; ownership, 18,000 direct, 4,000 indirect shares. ▶ Lawyer-cum-banker runs the show for financier Edmond Safra, who owns a third. Boasts strongest balance sheet of any major U. S. bank. That made his recent acquisition of troubled Manhattan Savings (deposits: $5.3 billion) a snap. Civic-minded; member of New York Holocaust Memorial Commission.

FOOTNOTES APPEAR ON PAGE 292

10:15 AM

An Arizona college uses NEC's big business technology to reach its smallest class.

There aren't many colleges willing to go the extra mile — let alone more — to help two students fulfill their graduation requirements. But thanks to NEC's sophisticated telecommunications equipment, Maricopa County Community Colleges have put music majors Correne Lane and Casey Henry in a class by themselves.

To graduate, both students must complete a course in Music Theory held on a campus too far away for either to reach. But with NEC's teleconferencing technology, Correne and Casey can now attend class three times a week. The system's two-way communication capabilities allow them to see and hear their professor while he watches and listens to their performances.

In addition to helping the college bridge the gap between teachers and students, Maricopa is also using other NEC interactive equipment to keep administrators and educators on the same wavelength.

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REYNOLDS METALS

WILLIAM O. BOURKE

Richmond, Va. *804-281-2000*

SALES: *$6.1 bil.* PROFITS: *$533 mil.*

MARKET VALUE: *$3.8 bil.*

▶ Born 4/12/27, Chicago, Ill.; BS (commerce), DePaul, 1951. Career path–merchandising/marketing; tenure–9 years, CEO 4 years. Compensation: 1989 salary & bonus, $1,775,000; ownership, 30,000 shares. ▶ Spending big this year–nearly $1 billion–to upgrade, expand aluminum smelters in Quebec, already among the world's most efficient. Doesn't want to be a commodity producer. Over 40% of sales involve packaging, containers; only 20% to troubled auto, construction industries. Will retire in 1992 to his central Virginia cattle farm.

RHONE-POULENC RORER

ROBERT E. CAWTHORN

Fort Washington, Pa. *215-628-6000*

SALES: *$1.2 bil.* PROFITS: *$86 mil.*

MARKET VALUE: *$2.5 bil.*

▶ Born 9/28/35, Masham, England; BA (agriculture), Cambridge, 1959. Career path–administration; tenure–8 years, CEO 5 years. Compensation: 1989 salary & bonus, NA; ownership, 20,000 shares. ▶ French parent (which he courted) brings new name, new products–and enough cash to make him top-tier drug player. Research budget now $400 million, up from $18 million in 1985. But best-known product still over-the-counter bellyache medicine Maalox; hopes new cherry-flavored tablets will foil competitors. In joint venture on AIDS with Jonas Salk.

RITE AID

ALEX GRASS

Shiremanstown, Pa. *717-761-2633*

SALES: *$3.2 bil.* PROFITS: *$82 mil.*

MARKET VALUE: *$1.3 bil.*

▶ Born 8/3/27, Scranton, Pa.; LLB, U. of Fla. Law, 1949. Career path–legal, retail management; tenure–37 years, CEO 28 years. Compensation: 1989 salary & bonus, $800,000; ownership, 720,000 shares. ▶ His company is a Wall Street darling once more, after son Martin, the company president, was cleared of Ohio bribery charges. With earnings growth slowing, why this optimism? Well, costs for updating computer systems and moving into video rentals are behind him. Analysts look for double-digit earnings gain to resume.

ROADWAY SERVICES

JOSEPH MARK CLAPP

Akron, Ohio *216-384-8184*

SALES: *$2.7 bil.* PROFITS: *$96 mil.*

MARKET VALUE: *$1.2 bil.*

▶ Born 7/29/36, Greensboro, N. C.; BS (business), U. of N. C., 1958. Career path–sales; tenure–23 years, CEO 3 years. Compensation: 1989 salary & bonus, $591,000; ownership, 31,000 direct, 21,000 indirect shares. ▶ His white, orange, and blue trucks are gaining on UPS, Fedeal Express. Package business, launched four years ago, was profitable for full year in '89. But then, the bad news: Margins at his less-than-truckload operations (bulk of revenues) are under pressure from rising wage costs, worker's comp benefits–and, of course, fuel prices.

ROCHESTER GAS & ELECTRIC

HARRY G. SADDOCK

Rochester, N. Y. *716-546-2700*

SALES: *$846 mil.* PROFITS: *$71 mil.*

MARKET VALUE: *$543 mil.*

▶ Born 5/8/29, Rochester, N. Y.; BS (elect. eng.), RPI, 1950. Career path–engineering/technical; tenure–40 years, CEO 2 years. Compensation: 1989 salary & bonus, $209,000; ownership, 1,000 direct, 3,000 indirect shares.[7] ▶ He starts every day with a 6 a.m. swim near office. But he took a $900 million bath on his stake in Nine Mile Point nuke. Now, he wants to upgrade another nuke. Expects customers to grow in upstate New York thanks to Canadian free-trade pact. To take their calls, he's first in the office after being first in pool.

ROCHESTER TELEPHONE

ALAN C. HASSELWANDER

Rochester, N. Y. *716-777-1000*

SALES: *$562 mil.* PROFITS: *$51 mil.*

MARKET VALUE: *$694 mil.*

▶ Born 2/16/34, Rochester, N. Y.; BA, St. Bernard's Seminary, 1955; MBA, U. of Rochester, 1974. Career path–administration, operations; tenure–33 years, CEO 6 years. Compensation: 1989 salary & bonus, $419,000; ownership, 2,000 direct, 16,000 indirect shares. ▶ After ringing up a great 1989, he's been left off the hook. Proposed rate increase didn't go through, his market promises only nominal growth, and his long-distance unit is piling up losses amid frightful competition. An avid fisherman, he's trying to reel in out-of-state companies.

ROCKEFELLER CENTER PROPERTIES

DAVID ROCKEFELLER

New York, N. Y. *212-841-7760*

SALES: *$126 mil.* PROFITS: *$42 mil.*

MARKET VALUE: *$633 mil.*

▶ Born 6/12/15, New York, N. Y.; BS, Har- 1936; PhD (econ.), U. of Chicago, 1940. Career path–bank- tenure–9 years, CEO 5 years. Compensation: 1989 salary & onus, none; ownership, 35,000 indirect shares. ▶ His name's still on the door, but after buying 51% last year, Mitsubishi Estate is the real landlord. This REIT holds a $1.2 billion mortgage on mid-Manhattan tourist attraction, but will the Big Apple's eal estate slump affect income? Unlikely: Anchor tenant NBC re- ly negotiated a new long-term lease.

ROCKWELL INTERNATIONAL

DONALD R. BEALL

El Segundo, Calif. *213-647-5000*

SALES: *$12.5 bil.* PROFITS: *$735 mil.*

MARKET VALUE: *$5.8 bil.*

▶ Born 11/29/38, Beaumont, Calif.; BS, San Jose State, 1960; MBA, U. of Pittsburgh, 1961. Career path–finance/accounting; tenure–23 years, CEO 3 years. Compensation: 1989 salary & bonus, $1,361,000; ownership, 171,000 direct, 24,000 indirect shares.[8] ▶ NASA's largest contractor, but he's quick to point out that government contracts account for 25% of revenues at this company vs. 50% just a few years ago. Among hotter new areas: industrial automation, high-tech color printing presses. Investors noticed–and shares have outperformed defense stocks.

ROHM & HAAS

J. LAWRENCE WILSON

Philadelphia, Pa. *215-592-3000*

SALES: *$2.7 bil.* PROFITS: *$176 mil.*

MARKET VALUE: *$2 bil.*

▶ Born 3/2/36, Rosedale, Miss.; BS (mech. eng.), Vanderbilt, 1958; MBA, Harvard, 1963. Career path–finance/accounting, administration; tenure–25 years, CEO 2 years. Compensation: 1989 salary & bonus, $678,000[1]; ownership, 59,000 direct, 7,000 indirect shares. ▶ A golfer caught in the rough. In 1988, demand for polymers, resins was brisk, so he scrambled to add capacity. Now, demand is off as depreciation, startup costs nibble at earnings. Another worry: He depends on two hazardous feedstocks, which need more spending to ensure safety.

ROHR INDUSTRIES

ROBERT H. GOLDSMITH

Chula Vista, Calif. *619-691-4111*

SALES: *$1 bil.* PROFITS: *$33 mil.*

MARKET VALUE: *$320 mil.*

▶ Born 5/15/30, Buffalo, N. Y.; BSME, U. of Buffalo, 1951; MBA, Xavier, 1960. Career path–engineering/technical; tenure–6 years, CEO 9 months. Compensation: 1989 salary & bonus, $352,000; ownership, 46,000 shares. ▶ New in pilot's seat of aerospace company, he's overcoming production snafus. Key programs (engine housings for MD-80, struts for Boeing 757) operating at a loss. Still, he's largest supplier of many jet components (housings, thrusters, pylons) and enjoys firm $2.5 billion backlog. Wrangling with Pentagon over costs on F-14 contract.

ROLLINS

O. WAYNE ROLLINS

Atlanta, Ga. *404-888-2000*

SALES: *$402 mil.* PROFITS: *$24 mil.*

MARKET VALUE: *$405 mil.*

▶ Born 5/5/12, Tunnel Hill, Ga.; attended U. of Tenn. Career path–administration; tenure–43 years, CEO 43 years. Compensation: 1989 salary & bonus, $500,000; ownership, 544,000 direct, 7,795,000 indirect shares. ▶ His Orkin man will kill your roaches, while other units nurse your lawn, guard your house, even water the office plants. But he won't retire. Why bother? Earnings should hit a record this year, and son Gary is waiting in the wings as COO. Dad just gave $10 million to Emory's Rollins medical research center.

ROLLINS ENVIRONMENTAL SERVICES

JOHN W. ROLLINS SR.

Wilmington, Del. *302-479-2700*

SALES: *$163 mil.* LOSS: *$14 mil.*

MARKET VALUE: *$631 mil.*

▶ Born 8/24/16, Keith, Ga. Career path–founder; tenure–22 years, CEO 2 years. Compensation: 1989 salary & bonus, $360,000; ownership, 5,567,000 direct, 171,000 indirect shares. ▶ Spending heavily on clean-ups to make sure his dump sites meet new legal standards for the types of chemical wastes he receives. Also planning costly new incinerators at his Louisiana facility. But his mood isn't totally gloomy: As the debt-free market leader, his company is bound to profit from growing demand for its services as environmental regulations take hold.

ROUSE

MATHIAS J. DEVITO

Columbia, Md. *301-992-6000*

SALES: *$495 mil.* PROFITS: *$10 mil.*

MARKET VALUE: *$840 mil.*

▶ Born 8/23/30, Trenton, N. J.; BA (liberal arts), U. of Md., 1954; LLB, U. of Md. Law, 1956. Career path–legal; tenure–22 years, CEO 11 years. Compensation: 1989 salary & bonus, $919,000; ownership, 592,000 direct, 163,000 indirect shares. ▶ Avid jogger's still buying land, hoping for a development rebound. But land sales are lackluster, depreciation costs steep. Still, most revenues come from managing flashy shopping centers, and retail tenants' sales have stayed strong in most locations. In August, lost his president in a small-plane crash.

ROWAN

C. ROBERT PALMER

Houston, Tex. *713-621-7800*

SALES: *$226 mil.* LOSS: *$38 mil.*

MARKET VALUE: *$985 mil.*

▶ Born 12/15/34, Gorman, Tex.; BSME (mech. eng., 1957), MSEA (eng. admin., 1966), SMU. Career path–engineering/technical; tenure–37 years, CEO 19 years. Compensation: 1989 salary & bonus, $618,000; ownership, 6,000 shares. ▶ Hunkered down through oil bust, hanging onto skilled rig hands and keeping gear spiffy. Now, oil and gas prices are rising, taking drilling rates with them. With some of the most modern jackup rigs, he can charge premium rates. Disappointment: Lost bid to buy 40 offshore rigs from Hunt brothers' Penrod.

RPM

THOMAS CHRISTOPHER SULLIVAN

Medina, Ohio *216-225-3192*

SALES: *$376 mil.* PROFITS: *$24 mil.*

MARKET VALUE: *$420 mil.*

▶ Born 7/8/37, Cleveland, Ohio; BS (business), Miami U. (Ohio), 1959. Career path–merchandising/marketing; tenure–29 years, CEO 19 years. Compensation: 1989 salary & bonus, $655,000[7]; ownership, 225,000 direct, 487,000 indirect shares. ▶ Shareholder's friend. Investors have earned average return of 24%, compounded over past 15 years. His secret: Sell low-profile, recession-proof, noncyclical products (waterproofing, corrosion-control chemicals). Acquire small entrepreneurial companies, encourage managers to stay around.

RUBBERMAID

STANLEY CARLETON GAULT

Wooster, Ohio *216-264-6464*

SALES: *$1.3 bil.* PROFITS: *$116 mil.*

MARKET VALUE: *$2.7 bil.*

▶ Born 1/6/26, Wooster, Ohio; BA, Coll. of Wooster, 1948. Career path–merchandising/marketing; tenure–11 years, CEO 10 years. Compensation: 1989 salary & bonus, $889,000; ownership, 269,000 shares. ▶ Respected manager has less than a year left before turning over reins to Walter Williams, another GE alum. Accomplished a lot, including 38 straight quarterly earnings gains. Just expanded presence in office products, accessories with Eldon buy. Plugged into Washington: Bush, Carla Hills have appointed him to important committees.

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Our planet is being hurt. Badly hurt. At a breathtaking pace mankind is exhausting all that makes survival on earth possible. Our world is being stripped bare and choked by pollution. The balance of nature has been upset.

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THE CORPORATE ELITE

RUSSELL

EUGENE CLEVELAND GWALTNEY

Alexander City, Ala. *205-329-4000*

SALES: *$688 mil.* PROFITS: *$65 mil.*

MARKET VALUE: *$1 bil.*

▶ Born 1/25/18, Rock Hill, S. C.; BSME (eng.), Ga. Tech, 1940. Career path–production/manufacturing; tenure–38 years, CEO 18 years. Compensation: 1989 salary & bonus, $425,000; ownership, 242,000 direct, 827,000 indirect shares. ▶ Cincinnatus in a sweatshirt. He ran apparel maker in its big growth years. Successor fell sick, so, like the Roman patriot, he was called from retirement in a troubled hour. Demand for his leisure lines, sports uniforms is strong. Experimenting with retail operations. Wife's grandfather founded firm.

RYAN'S FAMILY STEAK HOUSES

CHARLES D. WAY

Greer, S. C. *803-879-1000*

SALES: *$241 mil.* PROFITS: *$21 mil.*

MARKET VALUE: *$327 mil.*

▶ Born 3/17/53, Burtonwood AFB, England; BS (accounting), Clemson, 1975. Career path–finance/accounting; tenure–11 years, CEO 1 year. Compensation: 1989 salary & bonus, $125,000; ownership, 293,000 shares. ▶ Stay away, big spenders. The average check at his chain of 136 family-style steak houses is a paltry $5.30. No wonder sales growth slowed after minimum-wage hikes forced him to post a price increase in April. Still, he's expanding and enjoys minimal debt and maximum flexibility. He plays some golf, but not often.

RYDER SYSTEM

MITCHEL ANTHONY BURNS

Miami, Fla. *305-593-3726*

SALES: *$5.1 bil.* PROFITS: *$52 mil.*

MARKET VALUE: *$1.3 bil.*

▶ Born 11/1/42, Las Vegas, Nev.; BS (business mgmt.), Brigham Young, 1964; MBA (fin.), U. of Calif. at Berkeley, 1965. Career path–finance/accounting; tenure–16 years, CEO 8 years. Compensation: 1989 salary & bonus, $744,000; ownership, 148,000 shares. ▶ Took this truck-leasing firm into aircraft maintenance, insurance. But company's stellar performance turned sour in 1989. After $600 million in asset sales, heavy layoffs, and write-downs, things may be turning around. His power lunch: Takes execs to nearby hot dog stand.

SAFECO

CLIFFORD BRUCE MAINES

Seattle, Wash. *206-545-5000*

SALES: *$2.9 bil.* PROFITS: *$300 mil.*

MARKET VALUE: *$1.9 bil.*

▶ Born 8/14/26, Tacoma, Wash.; BS (law), U. of Wash., 1948; JD, U. of Wash. Law, 1949. Career path–legal; tenure–41 years, CEO 5 years. Compensation: 1989 salary & bonus, $530,000; ownership, 39,000 shares. ▶ Heads casualty insurer with two problems: 25% of business in California, where losses have been steady since 1988 regulatory changes; and rising cost of auto claims, which make those lines unprofitable. Fortunately, life, health lines make money. Maintains time-honored rule: Male employees must wear white shirts. Writes poetry, grows roses.

SAFETY-KLEEN

DONALD W. BRINCKMAN

Elgin, Ill. *312-697-8460*

SALES: *$478 mil.* PROFITS: *$46 mil.*

MARKET VALUE: *$1.4 bil.*

▶ Born 3/17/31, Chicago, Ill.; BS (marketing, 1954), MBA (1959), Northwestern. Career path–merchandising/marketing; tenure–31 years, CEO 22 years. Compensation: 1989 salary & bonus, $535,000; ownership, 373,000 shares. ▶ Runs nation's biggest industrial mopper-upper, collecting, re-refining used motor oils, solvents. If EPA labels oil hazardous waste, way is greased for growth. Trying to project environmental consciousness, but Greens unimpressed. Building world's largest re-refining plant. Just named new president, heir-presumptive.

SAFEWAY

PETER ALDEN MAGOWAN

Oakland, Calif. *415-891-3000*

SALES: *$14.3 bil.* PROFITS: *$3 mil.*

MARKET VALUE: *$1.1 bil.*

▶ Born 4/5/42, New York, N. Y.; AB (Amer. lit.), Stanford, 1964; MA (politics, philosophy, econ.), Oxford, 1966. Career path–retail operations; tenure–23 years, CEO 11 years. Compensation: 1989 salary & bonus, $1,213,000; ownership, 713,000 direct, 1,212,000 indirect shares.[7] ▶ Public again after a controversial LBO. But with about 90% of his stock owned by insiders, not too public. His goal of remodeling stores may conflict with Wall Street's desire to see $3.1 billion debt cut. San Francisco Giants fanatic sneaks off to Arizona during spring training.

SALOMON

JOHN H. GUTFREUND

New York, N. Y. *212-747-7000*

SALES: *$38.6 bil.* PROFITS: *$470 mil.*

MARKET VALUE: *$2.8 bil.*

▶ Born 9/14/29, New York, N. Y.; BA, Ober- 1951. Career path–finance/accounting; tenure–37 years, CEO ears. Compensation: 1989 salary & bonus, $3,500,000; owner- , 114,000 shares. ▶ Entered the year smarting from lacklus- sults, harsh portrayal in ex-employee's scathing book, *Li- r*. But his hand looks better in the first half. With M&A p, trading's the Street's money-maker now–and nobody er than Solly. Turned huge profits on trading, espe- n, where firm predicted the Nikkei's sharp drop.

SAN DIEGO GAS & ELECTRIC

THOMAS ALEXANDER PAGE

San Diego, Calif. *619-696-2000*

SALES: *$2.1 bil.* PROFITS: *$187 mil.*

MARKET VALUE: *$2.3 bil.*

▶ Born 3/24/33, Niagara Falls, N. Y.; BS (chem. eng., 1955), MS (indust. admin., 1963), Purdue. Career path–engineering/technical, ind. admin.; tenure–12 years, CEO 9 years. Compensation: 1989 salary & bonus, $647,000; ownership, 28,000 direct, 19,000 indirect shares. ▶ Will lose independence if pending merger goes through. Mates his well-run utility, which buys nearly half its power, with larger SCE, a net seller. Still, he's making plans. May expand, refurbish plants–maybe build a new one. In his fast-growing service area, he can't stand still.

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AULT/FCOM

SANTA FE ENERGY RESOURCES

JAMES L. PAYNE

Houston, Tex. *713-783-2401*

SALES: *$323 mil.* PROFITS: *$25 mil.*

MARKET VALUE: *$1.3 bil.*

▶ Born 3/7/37, Bloomington, Ill.; BS (eng.), Colo. School of Mines, 1959; MBA, Golden Gate, 1974. Career path–engineering/technical, management; tenure–8 years, CEO 4 months. Compensation: 1989 salary & bonus, $483,000; ownership, 12,000 indirect shares.[12] ▶ Heads this oil exploration and development unit of parent Santa Fe Southern Pacific. Parent sold 18.5% of stock to public, will spin-off the rest of this subsidiary to shareholders this fall. His big reserves mean a boon from rising oil prices. Treks exotic places, like New Zealand.

SANTA FE PACIFIC

ROBERT D. KREBS

Chicago, Ill. *312-786-6000*

SALES: *$3 bil.* LOSS: *$195 mil.*

MARKET VALUE: *$2.6 bil.*

▶ Born 5/2/42, Sacramento, Calif.; BA (political sci.), Stanford, 1964; MBA, Harvard, 1966. Career path–operations; tenure–24 years, CEO 3 years. Compensation: 1989 salary & bonus, $914,000; ownership, 79,000 direct, 37,000 indirect shares.[7] ▶ Pursuing far-reaching makeover, the spin-off of real estate and energy operations. Moving to suburbs, plans more than 2,500 job cuts by 1992. Reserves at company's Rabbit Creek Gold Mine richer than expected, so he's doubled production estimates. Talked with unions about buying out railroad, but so far no deal.

SARA LEE

JOHN H. BRYAN JR.

Chicago, Ill. *312-726-2600*

SALES: *$11.7 bil.* PROFITS: *$410 mil.*

MARKET VALUE: *$5.9 bil.*

▶ Born 10/5/36, West Point, Miss.; BA (econ., business admin.), Rhodes, 1958. Career path–finance, operations; tenure–22 years, CEO 16 years. Compensation: 1989 salary & bonus, $1,392,000; ownership, 574,000 direct, 123,000 indirect shares. ▶ Didn't follow the herd, and it's paying off. Clung to nonfood operations when others abandoned them in the mid-'80s–and now such labels as Hanes, Isotoner, Champion are making strong gains. Food business is tough; closing original bakery in suburban Chicago next year. An art buff.

SAVANNAH FOODS & INDUSTRIES

WILLIAM WALLACE SPRAGUE JR.

Savannah, Ga. *912-234-1261*

SALES: *$1.1 bil.* PROFITS: *$41 mil.*

MARKET VALUE: *$570 mil.*

▶ Born 11/11/26, Savannah, Ga.; BS (mech. eng.), Yale, 1950. Career path–merchandising/marketing; tenure–38 years, CEO 18 years. Compensation: 1989 salary & bonus, $642,000; ownership, 465,000 direct, 985,000 indirect shares. ▶ Trying to diversify this sugar grower and refiner by expanding line of jams, condiments, sugar, etc., in those tiny airline packages. Seventh generation in the sugar trade, he claims to run "Japanese style" company. Workers own 17%, but he's worried about new civil rights bill which he says imposes "quotas."

SBARRO

MARIO SBARRO

Commack, N. Y. *516-864-0200*

SALES: *$148 mil.* PROFITS: *$14 mil.*

MARKET VALUE: *$349 mil.*

▶ Born 3/11/42, Naples, Italy. Career path–food retailing; tenure–32 years, CEO 5 years. Compensation: 1989 salary & bonus, $279,000; ownership, 2,277,000 direct, 2,498,000 indirect shares. ▶ Up-from-the-counter deli operator whose family business, a Brooklyn *salumeria*, is now a 400-outlet chain, still family-run. Features pizza, pasta–and Mama Carmela's cheesecake. Into franchising, sometimes with Marriott. Challenge: Keeping earnings up, especially since McDonald's is moving into pizza. For fun, he visits relatives in Brooklyn, Italy.

SCANA

LAWRENCE M. GRESSETTE JR.

Columbia, S. C. *803-748-3000*

SALES: *$1.1 bil.* PROFITS: *$130 mil.*

MARKET VALUE: *$1.3 bil.*

▶ Born 2/23/32, St. Matthews, S. C.; BS (English, history), Clemson, 1954; LLB, U. of S. C. Law, 1959. Career path–legal; tenure–8 years, CEO 9 months. Compensation: 1989 salary & bonus, $300,000; ownership, 6,000 shares.[7] ▶ Runs utility hit hard by Hurricane Hugo. Cleanup cost $70 million, but not all news is bad: Just received rate increase, banked fat profits from sale of stake in Telecom-USA, recently was snapped up by MCI. Wants to go retail with propane business. Acquisitions, too: One small natural-gas distributor already under his belt.

SCECORP

JOHN E. BRYSON

Rosemead, Calif. *818-302-1212*

SALES: *$6.9 bil.* PROFITS: *$823 mil.*

MARKET VALUE: *$7.7 bil.*

▶ Born 7/24/43, New York, N. Y.; BA (history), Stanford, 1965; JD, Yale Law, 1969. Career path–legal; tenure–6 years, CEO 1 month. Compensation: 1989 salary & bonus, $419,000; ownership, NA.[6] ▶ Now that he's won contest to succeed retiring Howard Allen, his top priority will be long-awaited merger with San Diego Gas & Electric. Needs regulatory approval, and there's local San Diego opposition. Extra worry: Large industrial users continue to bypass his plants to generate their own power. Co-founded Natural Resources Defense Council.

SCHERING-PLOUGH

ROBERT P. LUCIANO

Madison, N. J. *201-822-7000*

SALES: *$3.2 bil.* PROFITS: *$471 mil.*

MARKET VALUE: *$10.5 bil.*

▶ Born 10/9/33, New York, N. Y.; BBA, City Coll. of N. Y., 1954; JD, U. of Mich. Law, 1958. Career path–legal, administration; tenure–12 years, CEO 9 years. Compensation: 1989 salary & bonus, $1,515,000[1]; ownership, 48,000 shares. ▶ His company leads market for over-the-counter remedies, but he wants to sell more prescription, biotech products. Sold off Maybelline cosmetics. Investing in brain-disorder drugs, interferon. Rails against "fad-driven" management, sticks with conventional three- and five-year plans. Why not? They work for him.

FOOTNOTES APPEAR ON PAGE 292

SCHLUMBERGER

D. EUAN BAIRD

New York, N. Y. *212-350-9400*

SALES: *$4.7 bil.* PROFITS: *$420 mil.*

MARKET VALUE: *$15.2 bil.*

▶ BORN 9/16/37, ABERDEEN, SCOTLAND; BA (GEOPHYSICS), CAMBRIDGE, 1960. CAREER PATH—ENGINEERING/TECHNICAL; TENURE—30 YEARS, CEO 4 YEARS. COMPENSATION: 1989 SALARY & BONUS, $1,140,000; OWNERSHIP, 42,000 SHARES. ▶ HE ENJOYS THE SOCIAL SPORTS—GOLF, TENNIS, SQUASH—BUT OTHERWISE KEEPS TO HIMSELF. NO BOARD MEMBERSHIPS, NO INDUSTRY PANELS. NARROW FOCUS ON BUSINESS HAS HELPED HIM ENGINEER A TURNAROUND IN COMPANY'S BASIC OIL-FIELD SERVICES BUSINESS, DESPITE WILDLY FLUCTUATING OIL PRICES. SURGE IN OVERSEAS EXPLORATION PRODUCED FIRST SIGNIFICANT UPTICK IN EARNINGS SINCE EARLY '80S. NOW THAT HE'S UNLOADED SOURED ACQUISITIONS IN SEMICONDUCTORS (FAIRCHILD) AND DEFENSE SYSTEMS, HE'S LOOKING FOR BIG GAINS. ONE POSSIBILITY: SOVIET UNION, NOW THAT ELF AQUITAINE, CHEVRON ARE GOING EXPLORING THERE.

SCHULMAN (A.)

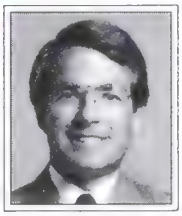
WILLIAM CHARLES ZEKAN

Akron, Ohio *216-666-3751*

SALES: *$624 mil.* PROFITS: *$31 mil.*

MARKET VALUE: *$489 mil.*

▶ Born 4/17/19, Akron, Ohio. Career path–merchandising/marketing; tenure–53 years, CEO 27 years. Compensation: 1989 salary & bonus, $697,000; ownership, 382,000 direct, 4,000 indirect shares. ▶ Says plans have been made for a successor–but won't say who: "I'm still the No. 1 guy." He's closed out probably another record year for this maker of proprietary plastics compounds and resin trader. Thanks for that go to European operations, which contribute most of sales and profits. Plans to increase European capacity 30%. Raises Arabian horses.



SCHWAB (CHARLES)

CHARLES R. SCHWAB

San Francisco, Calif. *415-627-7000*

SALES: *$553 mil.* PROFITS: *$19 mil.*

MARKET VALUE: *$319 mil.*

▶ Born 7/29/37, Sacramento, Calif.; BS (econ., 1959), MBA (1961), Stanford. Career path–finance/accounting; tenure–16 years, CEO 16 years. Compensation: 1989 salary & bonus, $1,133,000; ownership, 6,500,000 direct, 1,038,000 indirect shares. ▶ Hard times may have hit Wall Street, but he's expanding. Largest discount broker will add 15 branches this year (total 126). Also moving into financial services (mutual funds, retirement plans) to cut dependence on stock market. Enjoys bird hunting, fly fishing. Gourmet chef cooks his own birds.

SCIENTIFIC-ATLANTA

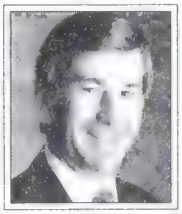
WILLIAM E. JOHNSON

Atlanta, Ga. *404-441-4000*

SALES: *$547 mil.* PROFITS: *$36 mil.*

MARKET VALUE: *$427 mil.*

▶ Born 6/23/41, St. Paul, Minn.; BA (Amer. studies, engineering), Yale, 1963; MBA, Harvard, 1968. Career path–management consultant; tenure–4 years, CEO 4 years. Compensation: 1989 salary & bonus, $875,000; ownership, 10,000 shares. ▶ Direct-broadcast satellites may be next dish. Experimental KPrime system will use his system to offer 10 channels. Other innovations include fiber optics and ability to eliminate table-top converters. But he frets that cable operators may be too worried about regulation to spend on gear. Skis, hikes, ride bike.



SCIMED LIFE SYSTEMS

DALE ALLEN SPENCER

Maple Grove, Minn. *612-420-0700*

SALES: *$67 mil.* PROFITS: *$17 mil.*

MARKET VALUE: *$399 mil.*

▶ Born 5/2/45, Lewiston, Me.; BS (eng.), U. of Me., 1967; MBA, Southern Ill. U., 1973. Career path–sales/mktg.; tenure–10 years, CEO 4 years. Compensation: 1989 salary & bonus, $152,000; ownership, 66,000 direct, 3,000 indirect shares. ▶ Ex-fighter pilot heads soaring health care company. Makes balloon catheters used in angioplasty, a low-cost alternative to open-heart surgery. Received boost when competitor C. R. Bard was hurt by product recalls. Faces patent suit from leading maker Eli Lilly, which he says killed his deal to sell to Bristol-Myers.

PHOTOGRAPH BY GIUSEPPE THOMA

SCOTT PAPER

PHILIP E. LIPPINCOTT

Philadelphia, Pa. *215-522-5000*

SALES: *$5.1 bil.* PROFITS: *$376 mil.*

MARKET VALUE: *$3.4 bil.*

▶ Born 11/28/35, Camden, N.J.; BA, Dartmouth, 1957; MBA, Mich. State, 1964. Career path–merchandising/marketing, administration; tenure–31 years, CEO 8 years. Compensation: 1989 salary & bonus, $756,000; ownership, 11,000 direct, 2,000 indirect shares.[8] ▶ His tissue business is on a roll, helped by technology spending, softening pulp prices in a wilting economy, strong sales abroad. Good thing, since printing and publishing papers, his other major products, are turning in disappointing performance. Supercompetitive and tough to please.

SCRIPPS (E. W.)

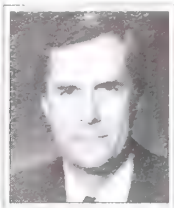
LAWRENCE A. LESER

Cincinnati, Ohio *513-977-3825*

SALES: *$1.3 bil.* PROFITS: *$89 mil.*

MARKET VALUE: *$1.2 bil.*

▶ Born 5/15/35, Cincinnati, Ohio; BSBA (accounting), Xavier, 1957. Career path–finance/accounting; tenure–23 years, CEO 5 years. Compensation: 1989 salary & bonus, $881,000; ownership, 30,000 direct, 12,000 indirect shares. ▶ News hasn't been pretty in first half. Slumping ad sales hurt 111-year-old media company. He's using depressed market to make acquisitions. Bought Baltimore's WMAR for $155 million–far less than previous owner Gillett Group paid. Took big charge for ending joint operating agreement with *Knoxville Journal.*



SCRIPPS HOWARD BROADCASTING

RICHARD J. JANSSEN

Cincinnati, Ohio *513-977-3000*

SALES: *$300 mil.* PROFITS: *$21 mil.*

MARKET VALUE: *$475 mil.*

▶ Born 4/19/36, Cleveland, Ohio. Career path–broadcasting, mgmt., sales; tenure–12 years, CEO 2 years. Compensation: 1989 salary & bonus, $350,000; ownership, 1,000 shares.[8] ▶ His company is 80% owned by E. W. Scripps and operates five radio outlets, nine TV stations, all network affiliates. He'll also run Baltimore TV station just acquired by parent; it carrries Orioles baseball. In July, he inked pact with game-show tycoon Jay Wolpert (*Family Feud, Match Game*) to develop, syndicate new offering. Former radio advertising salesman.

SEAGATE TECHNOLOGY

ALAN F. SHUGART

Scotts Valley, Calif. *408-438-6550*

SALES: *$2.4 bil.* PROFITS: *$117 mil.*

MARKET VALUE: *$603 mil.*

▶ Born 9/27/30, Los Angeles, Calif.; BS (eng., physics), U. of Redlands, 1951. Career path–engineering/technical, manufacturing; tenure–11 years, CEO 11 years. Compensation: 1989 salary & bonus, $1,406,000; ownership, 377,000 shares.[7] ▶ Tough, down-to-earth Silicon Valley veteran answers his own phone and is a gourmet cook at home. His is the largest hard-drive maker, but size may not help him much. Company stung by IRS claim for $112 million in back taxes. Acquisition of Imprimis Technology from Control Data gave boost to sales, profits.

SEARS, ROEBUCK

EDWARD A. BRENNAN

Chicago, Ill. *312-875-2500*

SALES: *$53.8 bil.* PROFITS: *$1.4 bil.*

MARKET VALUE: *$10 bil.*

▶ Born 1/16/34, Chicago, Ill.; BS (business admin.), Marquette, 1955. Career path–merchandising/marketing; tenure–34 years, CEO 5 years. Compensation: 1989 salary & bonus, $1,593,000; ownership, 89,000 direct, 22,000 indirect shares ▶ Brand-name strategy isn't working. After first-half slump, he personally took over merchandising group. Embarrassed by revelation that he talked merger with brother Bernard, head of Montgomery Ward. If he can't reverse trend, board may replace him–possibly with an outsider.

SECURITY PACIFIC

ROBERT H. SMITH

Los Angeles, Calif. *213-345-6211*

SALES: *$10 bil.* PROFITS: *$741 mil.*

MARKET VALUE: *$3.2 bil.*

▶ Born 9/3/35, Glendale, Calif.; BS (business), USC, 1957; JD, Van Norman Law, 1966. Career path–finance/accounting; tenure–29 years, CEO 9 months. Compensation: 1989 salary & bonus, $1,028,000; ownership, 98,000 direct, 1,000 indirect shares. ▶ Took over in January when predecessor left earlier than outsiders expected. As head of main subsidiary, he helped arrange $1.1 billion Ranier takeover, cut costs, wooed retail customers. But still has tough act to follow: Faces Arizona bad loan buildup, California real estate jitters, sluggish economy.

SENSORMATIC ELECTRONICS

RONALD G. ASSAF

Deerfield Beach, Fla. *305-427-9700*

SALES: *$151 mil.* PROFITS: *$17 mil.*

MARKET VALUE: *$351 mil.*

▶ Born 6/2/35, Akron, Ohio; attended U. of Akron. Career path–merchandising/marketing; tenure–24 years, CEO 16 years. Compensation: 1989 salary & bonus, $426,000; ownership, 250,000 direct, 23,000 indirect shares. ▶ Know those big plastic tags that thwart shoplifters? He makes 60% of them. For the first time since 1984 has had two consecutive profitable years. With 56% more orders than last year, it looks like all the R&D effort is starting to pay off. Now, pushing into magnetic tags, surveillance gear. To relax, reads crime novels.

SEQUA

NORMAN E. ALEXANDER

New York, N. Y. *212-986-5500*

SALES: *$2 bil.* PROFITS: *$61 mil.*

MARKET VALUE: *$587 mil.*

▶ Born 7/23/14, New York, N. Y.; BA, Columbia, 1934; JD, Columbia Law, 1936. Career path–general mgmt.; tenure–33 years, CEO 33 years. Compensation: 1989 salary & bonus, $1,391,000; ownership, 274,000 direct, 1,550,000 indirect shares. ▶ Energetic septuagenarian spent five years reorganizing company into six market units–everything from medical instrumentation to missile systems. Most units are running smoothly, though net dived. With defense cutbacks, expect more refocusing. Still finds time for sailing, twice-weekly tennis.

SEQUENT COMPUTER SYSTEMS

KARL C. POWELL JR.

Beaverton, Ore. *503-627-9827*

SALES: *$146 mil.* PROFITS: *$14 mil.*

MARKET VALUE: *$405 mil.*

▶ Born 6/4/43, New London, Conn.; BS (mech. eng.), U. S. Merchant Marine Acad., 1966. Career path–merchandising/marketing; tenure–8 years, CEO 8 years. Compensation: 1989 salary & bonus, $410,000; ownership, 244,000 direct, 160,000 indirect shares. ▶ They thought this Intel vet's idea was nuts: String together microprocessors to make super-fast computer much cheaper than mainframes and minis. He did it, and sales double annually. Challenge: getting big companies using mainframes to think smaller. Collects, drives exotic cars.

SERVICE CORP. INTERNATIONAL

ROBERT LYNN WALTRIP

Houston, Tex. *713-522-5141*

SALES: *$519 mil.* PROFITS: *$54 mil.*

MARKET VALUE: *$916 mil.*

▶ Born 1/10/31, Austin, Tex.; BA (business admin.), U. of Houston, 1954. Career path–entrepreneur; tenure–28 years, CEO 28 years. Compensation: 1989 salary & bonus, $545,000; ownership, 429,000 direct, 760,000 indirect shares. ▶ Grew up over his family's funeral home, expanded it to create nation's largest mortuary, cemetery chain. Now, he's streamlining: Sold his insurance, funeral-supplies operations; no longer markets prearranged funerals. Wants to concentrate on his core business and offer financing for other funeral home operators.

SHARED MEDICAL SYSTEMS

RICHARD J. MACALEER

Malvern, Pa. *215-296-6300*

SALES: *$388 mil.* PROFITS: *$18 mil.*

MARKET VALUE: *$317 mil.*

▶ Born 1/29/34, Elizabeth, N. J.; BS (chem. eng.), Princeton, 1955. Career path–engineering/technical, executive; tenure–21 years, CEO 21 years. Compensation: 1989 salary & bonus, $422,000; ownership, 995,000 direct, 83,000 indirect shares. ▶ He sells software to hospitals, clinics, physician groups. But they're cutting costs, and his company has lost much of its fast-growth lustre. He's reorganizing, looking for new customers overseas–where he recently landed choice military contracts. Blunt: "There's more to be done," he tells shareholders.

SHAW INDUSTRIES

ROBERT E. SHAW

Dalton, Ga. *404-278-3812*

SALES: *$1.2 bil.* PROFITS: *$48 mil.*

MARKET VALUE: *$683 mil.*

▶ Born 8/18/31, Cartersville, Ga.; attended U. of the South. Career path–administration; tenure–30 years, CEO 21 years. Compensation: 1989 salary & bonus, $1,144,000; ownership, 3,889,000 direct, 506,000 indirect shares. ▶ With his purchase of Armstrong's carpet business, he's now twice as big as his nearest competitor. Few targets left to buy in the U. S., so he'll have to look to Canada or Europe for acquisitions. Drop-off in housing starts has hurt. Likes his elbow room; built own golf course when his country club became too crowded for his tastes.

SHAWMUT NATIONAL

JOEL BARNES ALVORD

Hartford, Conn. *203-728-2000*

SALES: *$3 bil.* LOSS: *$129 mil.*

MARKET VALUE: *$614 mil.*

▶ Born 11/29/38, Manchester, Conn.; AB (history), Dartmouth, 1960; MBA, Amos Tuck (Dartmouth), 1961. Career path–finance/accounting; tenure–28 years, CEO 4 years. Compensation: 1989 salary & bonus, $1,000,000; ownership, 140,000 direct, 25,000 indirect shares. ▶ Ah, the active life: windsurfs, fishes, plays tennis, skis. But New England economy left bank holding company tuckered out last year. Real estate accounts for two-thirds of nonperforming loans, and nonperformer level disturbs analysts. Nobody blames him–only the region.

SHERWIN-WILLIAMS

JOHN GERALD BREEN

Cleveland, Ohio *216-566-2000*

SALES: *$2.1 bil.* PROFITS: *$109 mil.*

MARKET VALUE: *$1.4 bil.*

▶ Born 7/21/34, Cleveland, Ohio; BS (business), John Carroll, 1956; MBA, Case Western Reserve, 1961. Career path–production/manufacturing; tenure–12 years, CEO 12 years. Compensation: 1989 salary & bonus, $983,000; ownership, 208,000 shares. ▶ Marathon runner chases strategic deals. Paid $80 million for DeSoto Inc.–which just happens to make Sears' private label paint line. Bought Krylon spray paints from Borden for $140 million. Shrinking raw materials costs painting a pretty picture for margins at his 1,960 retail stores, too.

SHONEY'S

LEONARD H. ROBERTS

Nashville, Tenn. *615-391-5201*

SALES: *$852 mil.* PROFITS: *$19 mil.*

MARKET VALUE: *$535 mil.*

▶ Born 2/19/49, Chicago, Ill.; BS (chemistry, marketing), U. of Ill., 1979; JD (business law), DePaul Law, 1974. Career path–merchandising/marketing; tenure–10 months, CEO 10 months. Compensation: 1989 salary & bonus, NA[6]; ownership, 1,000 shares. ▶ Took up toque at restaurant chain after surprise resignation of James Boyd. Second-quarter earnings up 50%, and he plans big expansion through franchising. He'll have to contend with powerful founder Ray Danner. He's had tough bosses before: As CEO of Arby's, wrangled with owner Victor Posner.

SIERRA PACIFIC RESOURCES

AUSTIN W. STEDHAM

Reno, Nev. *702-689-3600*

SALES: *$445 mil.* PROFITS: *$49 mil.*

MARKET VALUE: *$427 mil.*

▶ Born 12/25/28, Salina, Kan.; BS (elect. eng.), Kan. State, 1952. Career path–engineering/technical; tenure–5 years, CEO 5 months. Compensation: 1989 salary & bonus, NA[6]; ownership, 4,000 shares. ▶ New to the top job, he's a hunter who doesn't always shoot. He prefers "tracking and looking at 'em." Also looking hard at new construction on five-year-old Thousand Springs coal project. It will produce wholesale power, but so far, no customers have signed up. Still, his residential utility business is great, bolstered by Nevada's rapid growth.

SIGMA-ALDRICH

[illegible]

St. Louis, Mo. *314-771-5765*

SALES: *$441 mil.* PROFITS: *$64 mil.*

MARKET VALUE: *$1.4 bil.*

▶ Born 8/13/36, St. Louis, Mo.; BS, U. of Wis., 1959; PhD, Wash. U. (Mo.), 1969. Career path–engineering/technical; tenure–19 years, CEO 11 years. Compensation: 1989 salary & bonus, $475,000; ownership, 56,000 shares. ▶ Between him and his customers, the reaction is really chemical. Marketer of 47,000 chemical reagents, other compounds to labs. R&D department is fanatic about service. Growing faster internationally than in the U. S., he bought Swiss competitor. Only trouble: Eastern Europe customers running out of hard currency to buy from him.

SIGNET BANKING

ROBERT M. FREEMAN

Richmond, Va. *804-771-7322*

SALES: *$1.4 bil.* PROFITS: *$123 mil.*

MARKET VALUE: *$402 mil.*

▶ Born 5/10/41, Richmond, Va.; BS (commerce), U. of Va., 1963. Career path–finance/accounting; tenure–19 years, CEO 1 year. Compensation: 1989 salary & bonus, $481,000; ownership, 29,000 direct, 15,000 indirect shares. ▶ He helped free this regional bank from risky Third World loans, expand into new markets, commercial lending. Now faces a much tougher challenge: Several real estate ventures that are big creditors have gone bankrupt, pushing bad loan ratios up, profits down. Still he's calm, confident–and able to enjoy his garden.

SILICON GRAPHICS

EDWARD R. MCCRACKEN

Mountain View, Calif. *415-960-1980*

SALES: *$420 mil.* PROFITS: *$32 mil.*

MARKET VALUE: *$511 mil.*

▶ Born 12/24/43, Fairfield, Iowa; BSEE, Iowa State, 1966; MBA, Stanford, 1968. Career path–marketing; tenure–6 years, CEO 6 years. Compensation: 1989 salary & bonus, $517,000[7]; ownership, 74,000 shares. ▶ Hewlett-Packard veteran is literally so soft-spoken he should wear a mike. Hasn't generated as much attention as rivals over at Sun Microsystems. Maybe not for long: Dazzling graphics of workstations boosted sales 59% this year. Marketing-oriented boss pushing for broadened product line at low end. Worry: Defense cuts could hurt.

SMITH INTERNATIONAL

DOUGLAS LAWRENCE ROCK

Houston, Tex. *713-443-3370*

SALES: *$312 mil.* LOSS: *$3 mil.*

MARKET VALUE: *$465 mil.*

▶ Born 1/25/47, Glen Cove, N. Y.; BS (chem.), Penn. State, 1968. Career path–production/manufacturing; tenure–16 years, CEO 2 years. Compensation: 1989 salary & bonus, $296,000; ownership, 18,000 shares. ▶ Big Peter Drucker fan is responsible for slick metamorphosis at drilling products and services company. Divested eight noncore businesses, began spending heavily on R&D. New products now constitute a third of sales. Once given up for dead, company back in the black. He recently got Industrial Equity, a suitor and 33% owner, to go away.

SMITH'S FOOD & DRUG CENTERS

[illegible]

Salt Lake City, Utah *801-974-1400*

SALES: *$1.7 bil.* PROFITS: *$26 mil.*

MARKET VALUE: *$746 mil.*

▶ Born 2/20/50, Brigham, Utah; attended Utah State. Career path–merchandising/marketing; tenure–28 years, CEO 2 years. Compensation: 1989 salary & bonus, $503,000; ownership, 1,714,000 direct, 2,413,000 indirect shares. ▶ Not those Smith brothers. He and President Richard took their late dad's retail chain public last year, using proceeds to expand giant combo stores where you can buy groceries, drugs, rent videos, bank. Opened 13 such behemoths last year, plans another 15 this. Grew up in stores: Started as a box boy at age 12.

SMUCKER (J. M.)

PAUL H. SMUCKER

Orrville, Ohio *216-682-3000*

SALES: *$422 mil.* PROFITS: *$30 mil.*

MARKET VALUE: *$585 mil.*

▶ Born 4/21/19, Orrville, Ohio; BS (business), Miami U. (Ohio), 1939. Career path–finance/accounting; tenure–51 years, CEO 12 years. Compensation: 1989 salary & bonus, $620,000; ownership, 713,000 direct, 3,262,000 indirect shares. ▶ Lots of new products for this third-generation CEO. Simply Fruit and Mary Ellen jams, Santa Cruz Natural juice are latest offerings. Upcoming: Fruitäge frozen yogurt taste-alike and Schwartau preserves. Pushing sales to commercial customers such as Dreyer's Ice Cream. Sales, net up smartly in fiscal '90.

SNAP-ON TOOLS

MARION F. GREGORY

Kenosha, Wis. *414-656-5200*

SALES: *$938 mil.* PROFITS: *$105 mil.*

MARKET VALUE: *$1.3 bil.*

▶ Born 10/26/33, Denison, Tex. Career path–[illegible]erchandising/marketing, production/manufacturing; ten-[illegible]35 years, CEO 2 years. Compensation: 1989 salary & bonus, [illegible],000; ownership, 13,000 shares.[7] ▶ Flys a rebuilt WW II Navy [illegible] trainer for fun. Still trying to shoot down lawsuits by [illegible]ho charge toolmaker with forcing promotional inven-[illegible]em. Decided to change company's consignment policy [illegible] resulting in falloff in sales growth. Bright spot: Sales [illegible]al and overseas markets look good.

SOCIETY

ROBERT W. GILLESPIE

Cleveland, Ohio *216-689-3000*

SALES: *$1.1 bil.* PROFITS: *$110 mil.*

MARKET VALUE: *$925 mil.*

▶ Born 3/26/44, Cleveland, Ohio; AB (econ.), Ohio Wesleyan, 1966; MBA, Case Western Reserve, 1968. Career path–lending; tenure–23 years, CEO 3 years. Compensation: 1989 salary & bonus, $633,000; ownership, 123,000 shares.[7] ▶ Holy Toledo! His conservative, unglamorous bank-holding company broke with tradition to buy Trustcorp, a troubled bank that bet big on a turnaround in, yes, downtown Toledo. Rivals say he overpaid, analysts wonder if deal will drag down parent. So far, so good, thanks to his cost-cutting skills. Hunts ducks for fun.

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SONAT

RONALD L. KUEHN JR.

Birmingham, Ala. *205-325-3800*

SALES: *$1.8 bil.* PROFITS: *$109 mil.*

MARKET VALUE: *$2.2 bil.*

▶ Born 4/6/35, Brooklyn, N. Y.; BS, Fordham, 1957; LLB, Fordham Law, 1964. Career path–legal; tenure–20 years, CEO 6 years. Compensation: 1989 salary & bonus, $848,000; ownership, 7,000 shares. ▶ Skilled negotiator with eclectic background. Onetime Fordham basketball star, Hollywood dealmaker, he left his law firm to join client company. Now, he's pushing pipeline company into exploration and production. Recent deal (his biggest) was buying Arkansas, Oklahoma holdings from USX for $150 million. Tennis buff.

SONOCO PRODUCTS

CHARLES W. COKER

Hartsville, S. C. *803-383-7000*

SALES: *$1.7 bil.* PROFITS: *$104 mil.*

MARKET VALUE: *$1.2 bil.*

▶ Born 5/10/33, Florence, S. C.; BA (history), Princeton, 1955; MBA, Harvard, 1957. Career path–production/manufacturing; tenure–33 years, CEO 20 years. Compensation: 1989 salary & bonus, $790,000; ownership, 422,000 direct, 115,000 indirect shares. ▶ Ambitious goal: wants to build company's annual revenues to $3 billion by 1993. How? He'll make more acquisitions, probably in Europe. Already, he's moved company founded by his grandfather out of textiles and into specialty packaging such as grocery bags, motor oil containers.

SOUTH CAROLINA NATIONAL

JAMES G. LINDLEY

Columbia, S. C. *803-765-3000*

SALES: *$659 mil.* PROFITS: *$59 mil.*

MARKET VALUE: *$351 mil.*

▶ Born 6/13/31, Greensboro, N. C.; BS (business), U. of N. C., 1953; MS (finance), NYU, 1960. Career path–finance/accounting; tenure–11 years, CEO 11 years. Compensation: 1989 salary & bonus, $511,000[1]; ownership, 25,000 shares. ▶ Built his state's biggest bank via acquisitions. But slowing his pace now as earnings slump because of troubled local real estate market. So he's out to improve service: Offers companies computerized statement reconciliation. Formerly with Manufacturers Hanover, he enjoys classical music, Tar Heel basketball.

SOUTHDOWN

CLARENCE C. COMER

Houston, Tex. *713-650-6200*

SALES: *$587 mil.* PROFITS: *$23 mil.*

MARKET VALUE: *$384 mil.*

▶ Born 1/9/48, Charleston, W. Va.; BBA (business, accounting), Lamar, 1971. Career path–finance/accounting; tenure–13 years, CEO 4 years. Compensation: 1989 salary & bonus, $585,000; ownership, NA.[8] ▶ Don't try pushing him around. Weightlifting enthusiast is ringleader of movement by six cement manufacturers to impose dumping duties on imported Mexican cement. He's also carrying his own crusade against Japanese dumping. Since 1988 acquisition of Moore McCormack, he's reduced debt by half, to 38% of capital, with asset sales.

SOTHEBY'S HOLDINGS

MICHAEL L. AINSLIE

New York, N. Y. *212-606-7000*

SALES: *$445 mil.* PROFITS: *$113 mil.*

MARKET VALUE: *$632 mil.*

▶ BORN 5/12/43, JOHNSON CITY, TENN.; BA, VANDERBILT, 1965; MBA, HARVARD, 1968. CAREER PATH—ADMINISTRATION; TENURE—6 YEARS, CEO 6 YEARS. COMPENSATION: 1989 SALARY & BONUS, $964,000; OWNERSHIP, NA.[8] ▶ HE ONCE RESTORED 19TH CENTURY HOUSES, AND CURRENT CHALLENGES AT WORK WILL TEST HIS RENOVATION SKILLS. HIS SOPHISTICATED MARKETING AND CREATIVE FINANCING HELPED FUEL '80S ART BOOM. BUT NOW PATINA IS GONE. ART PRICES ARE LEVELING AND AUCTION HOUSE'S STOCK HAS TUMBLED. LOST FACE WHEN HE HAD TO RESELL VAN GOGH'S *IRISES* AFTER PEDDLING IT ON CREDIT TO ALAN BOND. SOME DIVERSIFICATION EFFORTS (AUCTIONING CORPORATE AIRCRAFT) FLOPPED. ON PLUS SIDE, SCORED COUP WITH PARTNERSHIP PURCHASE OF SIGNIFICANT MAISE INVENTORY. FORMER MCKINTE IS LOOKING TO ASIA, USSR, POST-'92 EUROPE FOR GROWTH

SOUTHERN

EDWARD L. ADDISON

Atlanta, Ga. *404-393-0650*

SALES: *$7.5 bil.* PROFITS: *$969 mil.*

MARKET VALUE: *$7.4 bil.*

▶ Born 2/13/30, Cottageville, S. C.; BS (elect. eng.), U. of S. C., 1950. Career path–engineering/technical, merchandising/marketing; tenure–37 years, CEO 7 years. Compensation: 1989 salary & bonus, $787,000; ownership, 4,000 shares. ▶ A year he'd probably like to black out: His Gulf Power unit was fined $500,000 in scandal over campaign contributions. The Justice Dept. probed Georgia Power's purchasing schemes. And his stockbroker son was criticized for doing business with Southern's suppliers. Still, he appears in corporate TV ads.

SOUTHERN INDIANA GAS & ELECTRIC

RONALD REHERMAN

Evansville, Ind. *812-465-5300*

SALES: *$312 mil.* PROFITS: *$36 mil.*

MARKET VALUE: *$342 mil.*

▶ Born 8/13/35, Evansville, Ind.; BS (ind. eng.), U. of Evansville, 1958; MBA, U. of Southern Ind., 1971. Career path–engineering/technical; tenure–33 years, CEO 6 months. Compensation: 1989 salary & bonus, $206,000; ownership, 1,000 direct, 2,000 indirect shares.[7] ▶ Job fits new man like a glove, since he's worked for utility all his life. No nuke worries, since his fuel is coal, and he needs little debt to finance construction. All he does need are colder winters, hotter summers. Good for sales, good for his scuba diving and skiing.

SOUTHERN NEW ENGLAND TELECOM.

WALTER H. MONTEITH JR.

New Haven, Conn. *203-771-5200*

SALES: *$1.7 bil.* PROFITS: *$189 mil.*

MARKET VALUE: *$1.8 bil.*

▶ Born 9/19/30, Framingham, Mass.; BA, Amherst, 1952. Career path–merchandising/marketing, finance/accounting; tenure–36 years, CEO 6 years. Compensation: 1989 salary & bonus, $528,000; ownership, 6,000 shares. ▶ Connecticut customers, he says, pay half what phone service costs. So he wants first rate increase in eight years, since FCC plans to cap interstate revenues in 1991. Pushing technology: First statewide packet-switching network, big in cellular. Offered early retirement to union workers; 7% accepted. Dedicated fisherman.

SOUTHTRUST

WALLACE D. MALONE JR.

Birmingham, Ala. *205-254-5000*

SALES: *$763 mil.* PROFITS: *$73 mil.*

MARKET VALUE: *$465 mil.*

▶ Born 8/3/36, Dothan, Ala.; BS (business), U. of Ala., 1957; MBA, U. of Pa., 1960. Career path–finance/accounting; tenure–31 years, CEO 29 years. Compensation: 1989 salary & bonus, $604,000; ownership, 295,000 direct, 5,000 indirect shares. ▶ Hands-on manager prefers to enter new markets with startups, but that hasn't kept him from buying a collection of small banks and S&Ls throughout the Southeast. Payoff is consistent growth. But heavy exposure in commercial real estate could hurt. Avid bird hunter also enjoys skiing, golf, tennis.

SOUTHWEST AIRLINES

HERBERT D. KELLEHER

Dallas, Tex. *214-904-4000*

SALES: *$1 bil.* PROFITS: *$72 mil.*

MARKET VALUE: *$705 mil.*

▶ Born 3/12/31, Haddon Heights, N. J.; BA, Wesleyan, 1953; LLB, NYU Law, 1956. Career path–legal; tenure–23 years, CEO 9 years. Compensation: 1989 salary & bonus, $461,000; ownership, 443,000 direct, 30,000 indirect shares. ▶ Growth in his new California markets helps him beat current industry downturn, though fuel costs hurt earnings. Formula: keep costs low, service friendly, flights short. Gets edge, too, from monopoly at Dallas' close-in Love Field. Vows to double airline's size by 1995. Enjoys role as spokesman in TV commercials.

SOUTHWEST GAS

KENNY C. GUINN

Las Vegas, Nev. *702-876-7011*

SALES: *$848 mil.* PROFITS: *$43 mil.*

MARKET VALUE: *$292 mil.*

▶ Born 8/24/36, Garland, Ala.; AB, Fresno, 1959; EdD (ed. admin.), Utah State, 1969. Career path–mgmt.; tenure–3 years, CEO 2 years. Compensation: 1989 salary & bonus, $546,000; ownership, 74,000 shares. ▶ Ex-school superintendent, bank CEO, introduced to his third career when utility bought his savings bank. He's got an enviable customer base in fast-growing Las Vegas, Southern California, but there are regulator problems in Phoenix and Tucson, where a denied rate increase nicked company for an unusual quarterly loss. Active in Nevada politics.

SOUTHWESTERN BELL

EDWARD E. WHITACRE JR.

St. Louis, Mo. *314-235-9800*

SALES: *$8.7 bil.* PROFITS: *$1.1 bil.*

MARKET VALUE: *$14.7 bil.*

▶ Born 11/4/41, Ennis, Tex.; BS (indust. eng.), Tex. Tech, 1964. Career path–engineering/technical; tenure–27 years, CEO 9 months. Compensation: 1989 salary & bonus, $1,065,000; ownership, 26,000 direct, 9,000 indirect shares. ▶ Old-line phone man who says he wants to keep company close to its basic business. Strong in cellular, benefiting from faster growth in once-depressed Oklahoma, Texas. But he's not all stay-at-home. Into cable TV in Israel, Britain, which he thinks will provide valuable experience if curbs on domestic ownership lifted.

SOUTHWESTERN PUBLIC SERVICE

WILLIAM R. ESLER

Amarillo, Tex. *806-378-2121*

SALES: *$799 mil.* PROFITS: *$108 mil.*

MARKET VALUE: *$1.1 bil.*

▶ Born 2/10/26, Denison, Tex.; BSEE, U. of Tex., 1946. Career path–engineering/technical; tenure–42 years, CEO 2 years. Compensation: 1989 salary & bonus, $338,000; ownership, 1,000 direct, 6,000 indirect shares.[7] ▶ Demand for electricity isn't growing in his Texas and New Mexico markets. His astonishing response? Cut prices–and some wholesale customers just received 10% rate reductions, thanks to his utility's lower cost of capital, power-purchase expense. He's also a leader in working with local communities to boost industrial development.

SPIEGEL

JOHN J. SHEA

Oak Brook, Ill. *708-986-8800*

SALES: *$1.7 bil.* PROFITS: *$73 mil.*

MARKET VALUE: *$792 mil.*

▶ Born 3/1/38, Newark, N. J.; BS (marketing), LaSalle, 1959; MS (retailing), U. of Pittsburgh, 1960. Career path–merchandising/marketing; tenure–9 years, CEO 5 years. Compensation: 1989 salary & bonus, $997,000; ownership, 16,000 shares. ▶ Stuck his neck out in March with prediction of 20% growth through '95. He just might do it. Recasting catalog firm into topflight retailer, he bought Eddie Bauer, Honeybee in '88. Rolling out tony Bauer stores at high speed, and they're doing well. Bought an Oregon bank to expand credit-card reach.

SPRINGS INDUSTRIES

WALTER Y. ELISHA

Fort Mill, S. C. *803-547-3650*

SALES: *$1.9 bil.* PROFITS: *$65 mil.*

MARKET VALUE: *$429 mil.*

▶ Born 12/10/32, Gary, Ind.; BA (business), Wabash, 1954; MBA, Harvard, 1965. Career path–merchandising/marketing, administration; tenure–11 years, CEO 9 years. Compensation: 1989 salary & bonus, $764,000; ownership, 66,000 shares. ▶ Thoughtful, independent. Opposes government help, even though his industry is hurt by imports. His strategy: Make fewer apparel fabrics, more sheets, towels. Transition costs have hurt earnings. But he's got a pile of cash; most competitors are highly leveraged. Weekends, he farms, raises sheep.

SPX

DALE A. JOHNSON

Muskegon, Mich. *616-724-5000*

SALES: *$632 mil.* PROFITS: *$24 mil.*

MARKET VALUE: *$332 mil.*

▶ Born 11/12/37, Hector, Minn.; BS (education), Mankato State, 1959; MA (1966), PhD (phil., 1968), U. of Minn. Career path–public education; tenure–5 years, CEO 8 months. Compensation: 1989 salary & bonus, $351,000; ownership, 4,000 shares. ▶ Aims to continue strategy of selling fewer auto parts, more specialized gear for emissions and other tests. Hottest new product stores, filters freon from auto AC systems so it can be recycled without polluting. He's relaxed and gregarious in contrast to Robert Tuttle, his more staid predecessor.

SQUARE D

JERRE L. STEAD

Palatine, Ill. *708-397-2600*

SALES: *$1.6 bil.* PROFITS: *$104 mil.*

MARKET VALUE: *$1 bil.*

▶ Born 1/8/43, Maquoketa, Iowa; BBA, U. of Iowa, 1965. Career path–production/manufacturing; tenure–4 years, CEO 2 years. Compensation: 1989 salary & bonus, $629,000; ownership, 17,000 shares. ▶ Tough. He jogs six miles a day–and has bitten lots of bullets at the office. Closed plants, took write-offs in an effort to sharpen focus at this electrical controls manufacturer. To build international presence, he opened Thai factory, signed Japanese marketing agreement, expects European joint ventures. Results? Earnings still flat.

ST. JOE PAPER

JACOB CHAPMAN BELIN

Jacksonville, Fla. *904-396-6600*

SALES: *$635 mil.* PROFITS: *$67 mil.*

MARKET VALUE: *$968 mil.*

▶ Born 10/28/14, De Funiak Springs, Fla.; attended George Washington. Career path–merchandising/marketing; tenure–52 years, CEO 8 years. Compensation: 1989 salary & bonus, $125,000[7]; ownership, 9,000 direct, 105,000 indirect shares. ▶ History buff–and a frugal one. Routinely makes five-hour drive between offices instead of flying. Company has always been a long-term asset holder in paper milling, railroad, real estate. Now, he wants to develop real estate to boost earnings. Problem is, the market's glutted. Stock not reacting well.

ST. JUDE MEDICAL

LAWRENCE A. LEHMKUHL

St. Paul, Minn. *612-483-2000*

SALES: *$148 mil.* PROFITS: *$51 mil.*

MARKET VALUE: *$1.4 bil.*

▶ Born 6/3/37, Preston, Iowa; BA (business), U. of Iowa, 1962. Career path–finance/accounting, operations management; tenure–6 years, CEO 6 years. Compensation: 1989 salary & bonus, $377,000; ownership, 232,000 shares. ▶ He has 45% of the market for mechanical heart valves, and that spelled a 52% earnings gain last year. Rate slowed to 26% this year, so now he's looking for a big acquisition in cardiac-care products. And he admits R&D's low, so he'll be hiking spending. He and wife hop into family plane to visit four grand kids.

ST. PAUL

DOUGLAS W. LEATHERDALE

St. Paul, Minn. *612-221-7911*

SALES: *$3.8 bil.* PROFITS: *$398 mil.*

MARKET VALUE: *$2.4 bil.*

▶ Born 12/6/36, Morden, Manitoba, Canada; BA, United, 1957. Career path–investments; tenure–19 years, CEO 5 months. Compensation: 1989 salary & bonus, $644,000; ownership, 21,000 direct, 4,000 indirect shares. ▶ Just after this ...tfolio in...estment strategist took over, investor Alleghany ... sold its ...% stake. That ended a messy legal wrangle. Now, ... keep his diversified insurer away from bad risks and ... impact of boom-and-bust industry cycles. Likes to feed his show horses before heading off to the office.

STANDARD REGISTER

JOHN K. DARRAGH

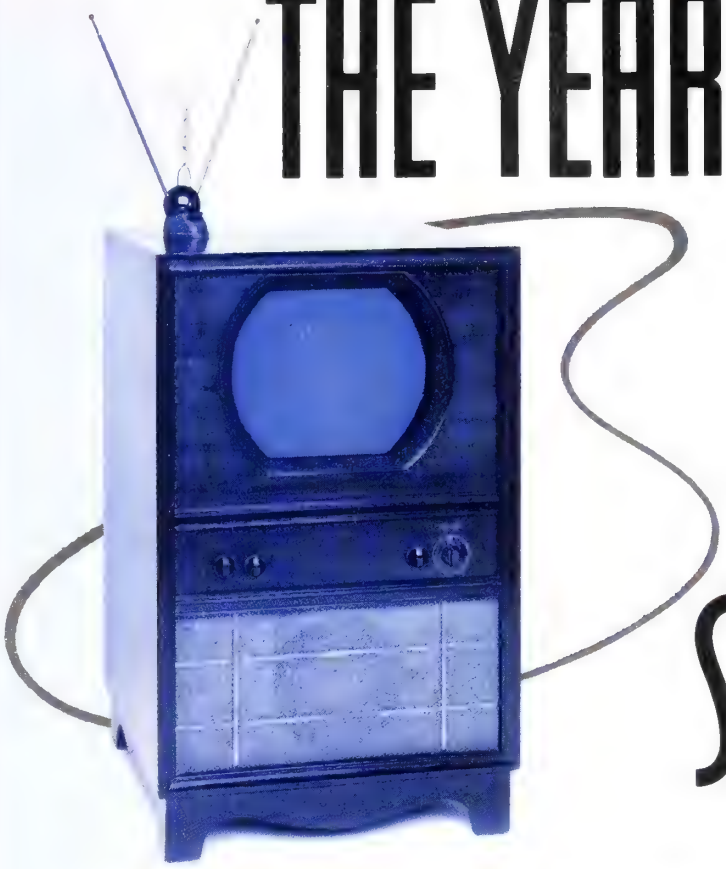
Dayton, Ohio *513-443-1000*

SALES: *$709 mil.* PROFITS: *$40 mil.*

MARKET VALUE: *$358 mil.*

▶ Born 10/22/29, Cincinnati, Ohio; BS (business), Ariz. State, 1959. Career path–finance/accounting, line mgmt.; tenure–16 years, CEO 7 years. Compensation: 1989 salary & bonus, $811,000; ownership, 59,000 shares. ▶ Former fighter pilot wooing customers with new system that allows them to design business forms electronically, send specs right to his plants. But he's got big headaches. Slumping demand, higher paper costs, fierce price competition are bringing earnings down. He will cut jobs, plants, take fourth-quarter charge.

THE YEAR MY FIRM STOPPED SWITCHING INSURANCE COMPANIES



Ours is an age of vanishing loyalties. Partnerships bloom and partnerships perish. Yet the client relationships of one insurance company span decades. Year after year–in businesses large, medium and small–it retains nearly 90% of the property/casualty clients it served the year before. □ Perhaps clients stay with The Hartford for its remarkably advanced products. And uniquely responsive customer service. But perhaps they stay, decade after decade, for the fairness and thoroughness and integrity that have been The Hartford's way of doing business for more than 180 years. □ ITT Hartford. When you need us most, we're at our best.

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STANHOME

ALEJANDRO DIAZ VARGAS

Westfield, Mass. *413-562-3631*

SALES: *$571 mil.* PROFITS: *$45 mil.*

MARKET VALUE: *$587 mil.*

▶ Born 10/28/44, San Juan, Puerto Rico; BBA, U. of Puerto Rico, 1966. Career path–sales, general mgmt.; tenure–18 years, CEO 2 months. Compensation: 1989 salary & bonus, $382,000; ownership, 74,000 shares.[7] ▶ Genial former Army captain started out working summers in company's Puerto Rico warehouse. Tremendous cash flow from sales of dolls, mugs, $25 figurines allows him to broaden distribution through acquisition. Appetite for knick-knacks remains strong, but he needs to work on flat sales of home-care products, toiletries.

STANLEY WORKS

RICHARD H. AYERS

New Britain, Conn. *203-225-5111*

SALES: *$2 bil.* PROFITS: *$118 mil.*

MARKET VALUE: *$1.2 bil.*

▶ Born 10/12/42, Newton, Mass.; BS (1965), MS (ind. mgmt., 1965), MIT. Career path–production/manufacturing, operations; tenure–19 years, CEO 3 years. Compensation: 1989 salary & bonus, $793,000; ownership, 28,000 shares. ▶ Into market research: Just refinished his game room and library; worked with pros on deck for his summer home. Just as energetic at the office, where his toolmaker has growth problems. His fix includes new products (closet organizer), niche acquisitions (measuring devices), foreign markets (Taiwan, Thailand).

STAR BANC

OLIVER W. WADDELL

Cincinnati, Ohio *513-632-4000*

SALES: *$636 mil.* PROFITS: *$58 mil.*

MARKET VALUE: *$541 mil.*

▶ Born 12/27/30, Covington, Ky.; BA, Duke, 1954; LLB, U. of Ky. Law, 1957. Career path–banking; tenure–33 years, CEO 7 years. Compensation: 1989 salary & bonus, $474,000; ownership, 4,000 shares. ▶ His effort to improve inconsistent performance may be paying off. Local competitors have posted write-offs this year–but not him: earnings up 15%. In legal mess over collapse of Keating's American Continental; he was trustee for one bond issue. Committed $35 million over five years for loans to local low-income neighborhoods.

STATE STREET BOSTON

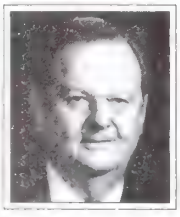
WILLIAM S. EDGERLY

Boston, Mass. *617-786-3000*

SALES: *$1.1 bil.* PROFITS: *$104 mil.*

MARKET VALUE: *$1.2 bil.*

▶ Born 2/18/27, Lewiston, Me.; BS (econ., eng.), MIT, 1949; MBA, Harvard, 1955. Career path–finance/accounting, prod./mfg.; tenure–15 years, CEO 15 years. Compensation: 1989 salary & bonus, $829,000; ownership, 312,000 direct, 24,000 indirect shares. ▶ Avoiding guilt by association. New England regional bank isn't suffering as much as rivals from problem real estate loans, thanks to focus as custodian for mutual- and pension-fund portfolios. Assets under custody grew 19% last year, to $800 billion. He's aiming for the $1 trillion milestone.



STERLING CHEMICALS

JAMES VIRGIL WAGGONER

Houston, Tex. *713-650-3700*

SALES: *$581 mil.* PROFITS: *$104 mil.*

MARKET VALUE: *$358 mil.*

▶ Born 10/29/27, Judsonia, Ark.; BS (chem.), BS (math), Ouachita Baptist, 1948; MA (organic chem., math), U. of Tex., 1950. Career path–production/manufacturing; tenure–4 years, CEO 4 years. Compensation: 1989 salary & bonus, $726,000; ownership, 4,627,000 direct, 51,000 indirect shares. ▶ Bright-yellow model of construction crane on his desk tells what's on his mind. Completed $100 million in projects to add to or build petrochemical plants this year, with more to come. While market's sagging, his staple, styrene, stays pretty firm.

STEWART & STEVENSON SERVICES

C. JIM STEWART II

Houston, Tex. *713-868-7700*

SALES: *$605 mil.* PROFITS: *$27 mil.*

MARKET VALUE: *$466 mil.*

▶ Born 6/27/25, Houston, Tex.; attended U. of Tex. Career path–management; tenure–43 years, CEO 6 years. Compensation: 1989 salary & bonus, $349,000; ownership, 375,000 direct, 99,000 indirect shares. ▶ His turnaround continues. Slammed by oil-and-gas collapse, he pushed this turbine maker into cogeneration, where gas turbines now bring a third of sales. Offshore oil equipment's less than 2%. Foreign's now 22%, up from 5% in 1986, should jump with deal to build, sell gas-turbine generators abroad. Thriving new business making buses, too.

STONE & WEBSTER

WILLIAM F. ALLEN JR.

New York, N. Y. *212-290-7500*

SALES: *$242 mil.* PROFITS: *$21 mil.*

MARKET VALUE: *$542 mil.*

▶ Born 6/22/19, N. Kingstown, R. I.; ScB (eng.), Brown, 1941; MS (mech. eng.), Harvard, 1947. Career path–engineering/technical; tenure–42 years, CEO 4 years. Compensation: 1989 salary & bonus, $625,000; ownership, 42,000 shares. ▶ His company is a powerhouse in designing, building plants for electric utilities. When that business slumped, he diversified into waste disposal, chemical processing. Unfortunately, those investments cut into earnings—this year and last. Still, he's holding onto his engineers. Analysts see a rebound in '91.

STONE CONTAINER

ROGER WARREN STONE

Chicago, Ill. *312-346-6600*

SALES: *$5.3 bil.* PROFITS: *$286 mil.*

MARKET VALUE: *$728 mil.*

▶ Born 2/16/35, Chicago, Ill.; BS (econ.), Wharton, 1957. Career path–marketing; operations; tenure–33 years, CEO 11 years. Compensation: 1989 salary & bonus, $1,379,000; ownership, 988,000 direct, 601,000 indirect shares. ▶ Soft-spoken scion feeling boxed in by industrywide discounting, 49% jump in acquisition-related interest expense. Preparing paper company to weather downturn. Won new agreement with his Canadian workers, averting strike. Got $400 million in standby credit. New push: grocery bag made of old newsprint.

THE CORPORATE ELITE

STORAGE TECHNOLOGY

RYAL ROBERT POPPA

Louisville, Colo. *303-673-5151*

SALES: *$983 mil.* PROFITS: *$36 mil.*

MARKET VALUE: *$656 mil.*

▶ Born 11/7/33, Wahpeton, N. D.; BS (business), Claremont McKenna, 1957. Career path–merchandising/marketing; tenure–6 years, CEO 6 years. Compensation: 1989 salary & bonus, $926,000; ownership, 21,000 shares.[7] ▶ Turnaround specialist with 35 pairs of cowboy boots. Hauled this computer equipment manufacturer back from bankruptcy, refinanced $285 million of 13.5% loans–cutting annual interest payments by $25 million. Hot product, too: Called Library, it's a mass tape-storage device. Coming soon is Iceberg, a disk-array storage device.

STRATUS COMPUTER

WILLIAM E. FOSTER

Marlboro, Mass. *508-460-2000*

SALES: *$341 mil.* PROFITS: *$35 mil.*

MARKET VALUE: *$349 mil.*

▶ Born 4/20/44, Berkeley, Calif.; BA (math.), San Jose State, 1966; MS (math., 1969), MBA (1974), U. of Santa Clara. Career path–engineering/technical; tenure–11 years, CEO 11 years. Compensation: 1989 salary & bonus, $385,000; ownership, 268,000 direct, 213,000 indirect shares. ▶ Pilots a Piper six-seater, and bucking some turbulence. Earnings dipped 18% in first half as sales to biggest customer, IBM, nosedived. Big Blue resells his computers to banks, airlines, but disbanded sales team last year. To make it up, he's expanding overseas operations.

STRIDE RITE

ERVIN R. SHAMES

Cambridge, Mass. *617-491-8800*

SALES: *$454 mil.* PROFITS: *$46 mil.*

MARKET VALUE: *$594 mil.*

▶ Born 7/6/40, Des Moines, Iowa; BSBA, U. of Fla., 1962; MBA, Harvard, 1966. Career path–merchandising/marketing; tenure–4 months, CEO 4 months. Compensation: 1989 salary & bonus, NA[2]; ownership, NA.[8] ▶ Passed over for the top job last year in favor of an outsider, he took over six months later when the new man quit. Experienced marketer (General Foods, Philip Morris) who needs all the tricks he can muster. Company warded off one takeover attempt. Now, he must quickly revitalize flagship Keds brand, rest of children's shoe lines.

STRUCTURAL DYNAMICS RESEARCH

RONALD J. FRIEDSAM

Milford, Ohio *513-576-2400*

SALES: *$94 mil.* PROFITS: *$10 mil.*

MARKET VALUE: *$296 mil.*

▶ Born 6/30/43, New York, N. Y.; BS (business admin.), NYU, 1965 Career path–merchandising/marketing; tenure–4 years, CEO 4 years. Compensation: 1989 salary & bonus, $429,000; ownership, 12,000 shares. ▶ Former Burroughs exec who left to head company that pioneered design software for mechanical engineers. Gets credit for implementing accounting, management controls, launching major R&D effort. Super performance, too: Sixteen straight quarters of earnings gains. Says he runs "very big company waiting to happen."

STRYKER

JOHN WILFORD BROWN

Kalamazoo, Mich. *616-385-2600*

SALES: *$226 mil.* PROFITS: *$19 mil.*

MARKET VALUE: *$598 mil.*

▶ Born 9/15/34, Paris, Tenn.; BS (chem. eng.), Auburn, 1957. Career path–administration; tenure–14 years, CEO 14 years. Compensation: 1989 salary & bonus, $390,000; ownership, 1,135,000 shares.[8] ▶ For past 13 years, he's predicted–and produced–20% annual earnings gains. Innovative company makes beds, surgical equipment, and body parts: joints, ligaments, limbs. More than 50% of sales from items developed fewer than five years ago. Courtly Tennessee gentleman who puts in long hours, expects others to do the same.

STUDENT LOAN MARKETING ASSN.

LAWRENCE A. HOUGH

Washington, D. C. *202-333-8000*

SALES: *$3.3 bil.* PROFITS: *$258 mil.*

MARKET VALUE: *$4.2 bil.*

▶ Born 4/4/44, Janesville, Wis.; BS (engineering), Stanford, 1966; MS (business), MIT, 1972. Career path–financial services; tenure–17 years, CEO 3 months. Compensation: 1989 salary & bonus, $440,000; ownership, NA.[8] ▶ Welcome to trouble. Days after he took over, No. 1 student-loan guarantor HEAF revealed financial woes, casting shadow over his Sallie Mae. But with the feds backing the loans, he'll probably suffer no HEAF-related losses. Long-term outlook's good, with top-notch servicing. Silver medalist in rowing at 1968 Olympics.

SUN

ROBERT MCCLEMENTS JR.

Radnor, Pa. *215-293-6000*

SALES: *$9.8 bil.* PROFITS: *$98 mil.*

MARKET VALUE: *$3.5 bil.*

▶ Born 12/1/28, Philadelphia, Pa.; BS (civil eng.), Drexel, 1952. Career path–engineering/technical; tenure–25 years, CEO 5 years. Compensation: 1989 salary & bonus, $938,000; ownership, 17,000 shares. ▶ His move downstream–with more retail outlets, refinery capacity in Philadelphia, and New York markets–is paying off. But problems with overseas exploration and production, Canadian affiliate are offsetting some of his gains. Into hunting, fishing, and getting his hands dirty: He once built a barn for the kids.

SUN MICROSYSTEMS

SCOTT G. MCNEALY

Mountain View, Calif. *415-960-1300*

SALES: *$1.8 bil.* PROFITS: *$61 mil.*

MARKET VALUE: *$2.5 bil.*

▶ Born 11/13/54, Columbus, Ind.; BA (econ.), Harvard, 1976; MBA, Stanford, 1980. Career path–production/manufacturing; tenure–9 years, CEO 7 years. Compensation: 1989 salary & bonus, $781,000; ownership, 1,773,000 shares. ▶ Not just another Silicon Valley entrepreneur, he's also an adept crisis manager. Last year's quarterly loss–from production delays, lax controls–only a bad memory. He's cut expenses, R&D, but new products (color workstation, bare-bones models) keep coming. Critics say he tries to do too much. So far, they're wrong.

SUNDSTRAND

HARRY C. STONECIPHER

Rockford, Ill. *815-226-6000*

SALES: *$1.6 bil.* PROFITS: *$121 mil.*

MARKET VALUE: *$970 mil.*

▶ Born 5/16/36, Scott County, Tenn.; BS (physics), Tenn. Poly. Inst., 1960. Career path–engineering/technical; tenure–4 years, CEO 2 years. Compensation: 1989 salary & bonus, $550,000; ownership, 102,000 shares. ▶ Skeet shooter turned troubleshooter. He's negotiated a deal that ends SEC investigation of company's fraudulent billing on defense contracts. Still, committee of outside directors is looking for unreported violations. Added two outsiders to top executive ranks. Earnings hurt by troubled Brazilian operations.

SUNTRUST BANKS

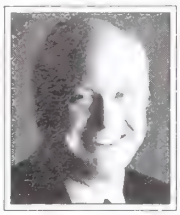
JAMES B. WILLIAMS

Atlanta, Ga. *404-588-7711*

SALES: *$3.3 bil.* PROFITS: *$337 mil.*

MARKET VALUE: *$2.5 bil.*

▶ Born 3/21/33, Sewanee, Tenn.; AB (business), Emory, 1955. Career path–finance/accounting; tenure–35 years, CEO 6 months. Compensation: 1989 salary & bonus, $471,000; ownership, 142,000 direct, 77,000 indirect shares. ▶ In mold of mentor, predecessor Robert Strickland, he's no flashy banker. Bad loans at 1986 Tennessee acquisition stung earnings at ultraconservative bank, one of most profitable in U. S., so don't look for any wild deals. Son of schoolteachers in Tennessee mountains, his big break was academic scholarship to college.



SUPER VALU STORES

MICHAEL W. WRIGHT

Eden Prairie, Minn. *612-828-4000*

SALES: *$11.1 bil.* PROFITS: *$148 mil.*

MARKET VALUE: *$1.7 bil.*

▶ Born 6/13/38, Minneapolis, Minn.; BA (history), U. of Minn., 1961; LLB, U. of Minn. Law, 1963. Career path–legal; tenure–14 years, CEO 9 years. Compensation: 1989 salary & bonus, $905,000; ownership, 114,000 direct, 19,000 indirect shares. ▶ Former star lineman for U. of Minn. tackling new retailing and wholesaling challenges. Pushing into hypermarkets, though some doubt prospects for giant stores in U. S. His acquisitions formed largest wholesaler to independent food stores. On the side, he chairs Minneapolis Fed, coaches son's football team.

SURGICAL CARE AFFILIATES

JOEL C. GORDON

Nashville, Tenn. *615-385-3541*

SALES: *$82 mil.* PROFITS: *$6 mil.*

MARKET VALUE: *$349 mil.*

▶ Born 1/5/29, Crofton, Ky.; BS (mgmt.), U. of Ky., 1951. Career path–merchandising/marketing; tenure–8 years, CEO 8 years. Compensation: 1989 salary & bonus, $400,000; ownership, 551,000 direct, 669,000 indirect shares. ▶ Cutting-edge entrepreneur. Sold a chain of acute-care hospitals to HCA in 1980. Two years later, he started this chain of outpatient surgery centers. Raises money for construction from local doctors, who then provide patient base. Charges $600 to $1,200 per use, medical fees extra. Cheaper than in-hospital care.

SYNOPTICS COMMUNICATIONS

ANDREW K. LUDWICK

Santa Clara, Calif. *415-960-1100*

SALES: *$77 mil.* PROFITS: *$9 mil.*

MARKET VALUE: *$469 mil.*

▶ Born 10/30/45, Dayton, Ohio; BA (econ., 1967), MBA (1969), Harvard. Career path–merchandising/marketing; tenure–5 years, CEO 5 years. Compensation: 1989 salary & bonus, $221,000; ownership, 384,000 shares. ▶ He founded this spin-off of Xerox Corp.'s Palo Alto research center. Built niche using inexpensive phone wire in local area networks that tie PCs together. He's capitalizing on corporate shift away from mainframes and into more versatile networked PCs. R&D expected to double this year, and net could double, too.

SYNOVUS FINANCIAL

JAMES HUBERT BLANCHARD

Columbus, Ga. *404-649-2311*

SALES: *$308 mil.* PROFITS: *$31 mil.*

MARKET VALUE: *$511 mil.*

▶ Born 6/22/41, Augusta, Ga.; BBA, U. of Ga., 1963; LLB, U. of Ga. Law, 1965. Career path–banking; tenure–20 years, CEO 4 years. Compensation: 1989 salary & bonus, $366,000; ownership, 310,000 direct, 32,000 indirect shares. ▶ AT&T reached out and touched his financial services company this year: Units of his renamed CB&T Bancshares will distribute, process Ma Bell's Universal credit card. Could be a problem if other customers get squeezed by the new card, but he reports no defections so far. Son of founder likes fishing, golf.

SYNTEX

PAUL E. FREIMAN

Palo Alto, Calif. *415-855-5050*

SALES: *$1.3 bil.* PROFITS: *$303 mil.*

MARKET VALUE: *$6.3 bil.*

▶ Born 7/23/34, New York, N. Y.; BS (pharmacy), Fordham, 1955. Career path–merchandising/marketing; tenure–28 years, CEO 1 year. Compensation: 1989 salary & bonus, $586,000; ownership, 62,000 shares. ▶ Pharmacist with a flair for marketing. Patent waning on Naprosyn pain reliever, so he's planning to steer it over-the-counter. Has hot stuff in the pipeline, such as drugs for stroke and pain, plus a new treatment for endometriosis. Lessened shadow of longstanding environmental liability with settlement of lawsuits over dioxin contamination.

SYSCO

JOHN F. WOODHOUSE

Houston, Tex. *713-584-1390*

SALES: *$6.9 bil.* PROFITS: *$108 mil.*

MARKET VALUE: *$2.9 bil.*

▶ Born 11/30/30, Wilmington, Del.; BA (business), Wesleyan, 1953; MBA (finance), Harvard, 1955. Career path–finance/accounting; tenure–21 years, CEO 8 years. Compensation: 1989 salary & bonus, $1,083,000; ownership, 656,000 shares. ▶ A touch of indigestion? Distributor of food and foodservice products swallowed big rival CFS two years ago. Still struggling to meld facilities, spent $200 million to spruce up some CFS units to meet 15% to 20% growth he demands. Eyeing new turf, may yet make more buys. Climbs High Sierras with wife.

WHERE ever yearlings race the wind, yearly

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on the road when the horse they want is on the

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TAMBRANDS

MARTIN FREDERICK CHEERE EMMETT

Lake Success, N. Y. *516-358-8300*

SALES: *$583 mil.* PROFITS: *$2 mil.*

MARKET VALUE: *$1.7 bil.*

▶ Born 8/30/34, Johannesburg, S. Africa; BS (mech. eng.), U. of Witwatersrand, 1957; MBA, Queen's, (Canada) 1962. Career path–merchandising/marketing; tenure–1 year, CEO 1 year. Compensation: 1989 salary & bonus, $425,000; ownership, 29,000 shares. ▶ Undoing predecessor's disastrous diversifications with return to tampon basics. Restructured, pared management, bought back stock. Earnings rebounding at impressive rate. With 60% of U. S. tampon sales, he's pursuing foreign markets. Is he dressing company up for sale?

TANDEM COMPUTERS

JAMES G. TREYBIG

Cupertino, Calif. *408-725-6000*

SALES: *$1.6 bil.* PROFITS: *$118 mil.*

MARKET VALUE: *$1.6 bil.*

▶ Born 9/28/40, Clarendon, Tex.; BA (1963), BSEE (1964), Rice; MBA, Stanford, 1968. Career path–marketing; venture capital; tenure–16 years, CEO 16 years. Compensation: 1989 salary & bonus, $479,000; ownership, 681,000 direct, 4,000 indirect shares. ▶ Ham radio operator hearing surprise static. Government, securities industry cut back on his fail-safe computer systems. Still, he sells big, top-of-the-line contracts that spell hefty future sales despite slower growth outlook. And he stays atop trends, such as real-time computing for ATMs, airlines.

TANDY

JOHN V. ROACH

Fort Worth, Tex. *817-390-3214*

SALES: *$4.2 bil.* PROFITS: *$324 mil.*

MARKET VALUE: *$2.1 bil.*

▶ Born 11/22/38, Stamford, Tex.; BA (physics & math., 1961), MBA (1965), TCU. Career path–merchandising/marketing; tenure–26 years, CEO 9 years. Compensation: 1989 salary & bonus, $971,000; ownership, 63,000 shares. ▶ Trying to polish Radio Shack's image, he's half way through spending $80 million to upgrade the stores, and he's got an ad campaign themed "America's Technology Store." Also rolling out new home computer designed to compete with IBM's PS/1. His GRiD unit is pushing sales to business. For fun, he skis.

TCA CABLE TV

ROBERT M. ROGERS

Tyler, Tex. *214-595-3701*

SALES: *$79 mil.* PROFITS: *$11 mil.*

MARKET VALUE: *$303 mil.*

▶ Born 8/31/26, Buckner, Mo.; attended William Jewell. Career path–engineering/technical; tenure–36 years, CEO 36 years. Compensation: 1989 salary & bonus, $156,000; ownership, 8,152,000 direct, 1,444,000 indirect shares. ▶ Enjoying record revenues, earnings–and the fact that he runs cable industry's most profitable company. How? He's mostly in rural areas where reception is poor and growth potential is significant. Now integrating Cook Cablevision acquisition. Started his entertainment career running a drive-in theatre.

TECO ENERGY

TIMOTHY L. GUZZLE

Tampa, Fla. *813-228-4111*

SALES: *$1.1 bil.* PROFITS: *$138 mil.*

MARKET VALUE: *$1.6 bil.*

▶ Born 11/4/36, Ottumwa, Iowa; BS (phys. & math, 1958), MS (phys., 1959), U. of Okla.; PhD (physics), TCU, 1965. Career path–engineering/technical; tenure–3 years, CEO 1 year. Compensation: 1989 salary & bonus, $508,000; ownership, 1,000 shares. ▶ Cautious new boss satisfies shareholders with earnings gains at diversified utility. Less successful with regulators. Lost bid to build, operate a 295-megawatt power facility in Florida. Also, state power authority says a subsidiary overcharged customers from 1986-88. Golfer, saltwater fisherman.

TECUMSEH PRODUCTS

TODD WESLEY HERRICK

Tecumseh, Mich. *517-423-8411*

SALES: *$1.5 bil.* PROFITS: *$83 mil.*

MARKET VALUE: *$552 mil.*

▶ Born 11/29/42, Tecumseh, Mich.; BA (business mgmt.), Notre Dame, 1957. Career path–engineering/technical, production/manufacturing; tenure–18 years, CEO 4 years. Compensation: 1989 salary & bonus, $230,000; ownership, 10,000 indirect shares.[7] ▶ Fond of the Aspen ski scene, this year he faces tough sledding at home: Market for gas engines, refrigerator compressors slumped, pounding sales, nicking profits for big third-quarter loss. Grandson of founder, meanwhile, spending big on R&D to roll out new products, no help to the bottom line.

TEJON RANCH

JACK HUNT

Lebec, Calif. *805-327-8481*

SALES: *$15 mil.* PROFITS: *$2 mil.*

MARKET VALUE: *$425 mil.*

▶ Born 1/18/45, Wichita Falls, Tex.; BA (history), Williams, 1967; MBA, Harvard, 1973. Career path–operations; tenure–10 years, CEO 5 years. Compensation: 1989 salary & bonus, $206,000; ownership, 9,000 shares. ▶ A mountain biker with 270,000 acres of farm and ranch land to roam. But now, here's a drought, which means culling his cattle herd early. That osts income this year and hurts it next. His eye is also on fue real estate sales: He helped block a nearby windmill farm, ch would have spoiled the view from potential sites.

TEKTRONIX

ROBERT W. LUNDEEN

Beaverton, Ore. *503-627-7111*

SALES: *$1.4 bil.* LOSS: *$93 mil.*

MARKET VALUE: *$403 mil.*

▶ Born 6/25/21, Astoria, Ore.; BS (chem. eng.), Ore. State, 1942. Career path–engineering/technical; tenure–3 years, CEO 6 months. Compensation: 1989 salary & bonus, none[7]; ownership, 4,000 shares. ▶ Former Dow Chemical chairman stepped in after David Friedley's abrupt departure. (Reason: failure to turn around sleepy electronics company after three turbulent years.) Already, he's provided some focus, announcing sell-off of money-losing operations. Now, he and board are looking outside for a permanent CEO, a departure.

THE CORPORATE ELITE

TELE-COMMUNICATIONS

JOHN C. MALONE

Denver, Colo. *303-721-5500*

SALES: *$3 bil.* LOSS: *$257 mil.*

MARKET VALUE: *$3.9 bil.*

▶ Born 3/7/41, Milford, Conn.; BS (elec. eng., con.), Yale, 1963; MS, NYU, 1965; MS (1964), PhD (1967), Johns Hopkins. Career path–engin./tech., fin./accting., admin.; tenure–17 years, CEO 17 years. Compensation: 1989 salary & bonus, $405,000; ownership, 5,000 shares. ▶ Expert sailor unfazed by rocky Maine coast, but faces rough seas at the office. Shares in his cable-TV giant slump in prospect of industry re-regulation, but he's fighting back: Spinning off programming assets, lobbying in Washington, launching "Customer First" campaign.

TELECREDIT

LEE ADDISON AULT III

Los Angeles, Calif. *213-410-4600*

SALES: *$154 mil.* PROFITS: *$25 mil.*

MARKET VALUE: *$412 mil.*

▶ Born 8/13/36, Cincinnati, Ohio; BA (American studies), Yale, 1958. Career path–merchandising/marketing, finance/accounting; tenure–22 years, CEO 22 years. Compensation: 1989 salary & bonus, $450,000[7]; ownership, 48,000 shares. ▶ Ex-Marine pilot brought payment-services outfit through turbulence. Lost half of credit-union customers, so he's pushed into new offerings–checking-account bells and whistles, lottery-ticket processing. Agreed to acquisition by Equifax credit checker late this year in stock swap valued as high as $690 million.

TELEDYNE

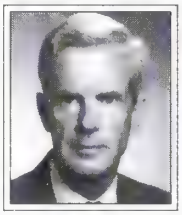
GEORGE A. ROBERTS

Los Angeles, Calif. *213-277-3311*

SALES: *$3.5 bil.* PROFITS: *$150 mil.*

MARKET VALUE: *$984 mil.*

▶ Born 2/18/19, Uniontown, Pa.; BS, (1939), MS (1941), DS (1942), Carnegie Inst. of Tech. Career path–engineering/technical; tenure–24 years, CEO 4 years. Compensation: 1989 salary & bonus, $819,000; ownership, 2,448,000 shares. ▶ Annapolis roommate of founder Henry Singleton, who retired two years ago but still plays key role. Ultimate successor may be William Rutledge, 48, who heads metals, machinery, consumer units. Outsiders peg these survivors after Singleton sells troubled defense business, plagued by messy over-billing scandal.



TELEFLEX

LENNOX KINGMAN BLACK

Plymouth Meeting, Pa. *215-834-6301*

SALES: *$356 mil.* PROFITS: *$27 mil.*

MARKET VALUE: *$320 mil.*

▶ Born 3/27/30, Montreal, Canada; BC (econ.), McGill, 1952. Career path–merchandising/marketing, finance/accounting; tenure–32 years, CEO 20 years. Compensation: 1989 salary & bonus, $587,000; ownership, 389,000 shares. ▶ Actively buying, selling units of this mechanical controls and medical devices business. While cyclical auto, boat markets are slow, he's benefiting from higher-margined aerospace products and services and German acquisition that makes medical products. Active in local education programs, he enjoys squash, tennis.

TELEPHONE & DATA SYSTEMS

LEROY T. CARLSON JR.

Chicago, Ill. *312-630-1900*

SALES: *$240 mil.* PROFITS: *$11 mil.*

MARKET VALUE: *$786 mil.*

▶ Born 9/27/46, Chicago, Ill.; BS (econ., 1968), MBA (1971), Harvard. Career path–finance/accounting; tenure–16 years, CEO 4 years. Compensation: 1989 salary & bonus, $246,000; ownership, 11,000 direct, 34,000 indirect shares. ▶ Price hikes on hold for this cellular phone operator. U. S. Cellular subsidiary isn't making money as it concentrates on building business. Earlier in year, its subscriber push suffered when it raised equipment prices–so it backed down. Old-line paging business his current strength. Founder's son, he serves mostly rural areas.

TEMPLE-INLAND

CLIFFORD J. GRUM

Diboll, Tex. *409-829-5511*

SALES: *$2.1 bil.* PROFITS: *$207 mil.*

MARKET VALUE: *$1.8 bil.*

▶ Born 12/12/34, Davenport, Iowa; BA, Austin, 1956; MBA, Wharton, 1958. Career path–finance/accounting, publishing; tenure–22 years, CEO 7 years. Compensation: 1989 salary & bonus, $821,000; ownership, 363,000 direct, 74,000 indirect shares. ▶ His forest-products company breaking profit records for odd reason: It owns a busted Texas thrift purchased in a sweet deal with the feds that guarantees yield on risky real estate assets. Although paper margins are down, he's building facility to make paper to showcase graphics on corrugated boxes.

TENNECO

JAMES L. KETELSEN

Houston, Tex. *713-757-2131*

SALES: *$14.1 bil.* PROFITS: *$584 mil.*

MARKET VALUE: *$7.1 bil.*

▶ Born 11/14/30, Davenport, Iowa; BBA, Northwestern, 1952. Career path–finance/accounting; tenure–32 years, CEO 12 years. Compensation: 1989 salary & bonus, $1,636,000[1]; ownership, 88,000 direct, 29,000 indirect shares. ▶ Father of J. I. Case unit's newest "farmer-friendly" tractor, created for Europe. Most of his diversified businesses doing well–the best since he sold off oil & gas properties in 1987. Wants to build a gas pipeline from Rockies to Southern California. Jogs three miles a day, just built an exercise facility for employees.

TERADATA

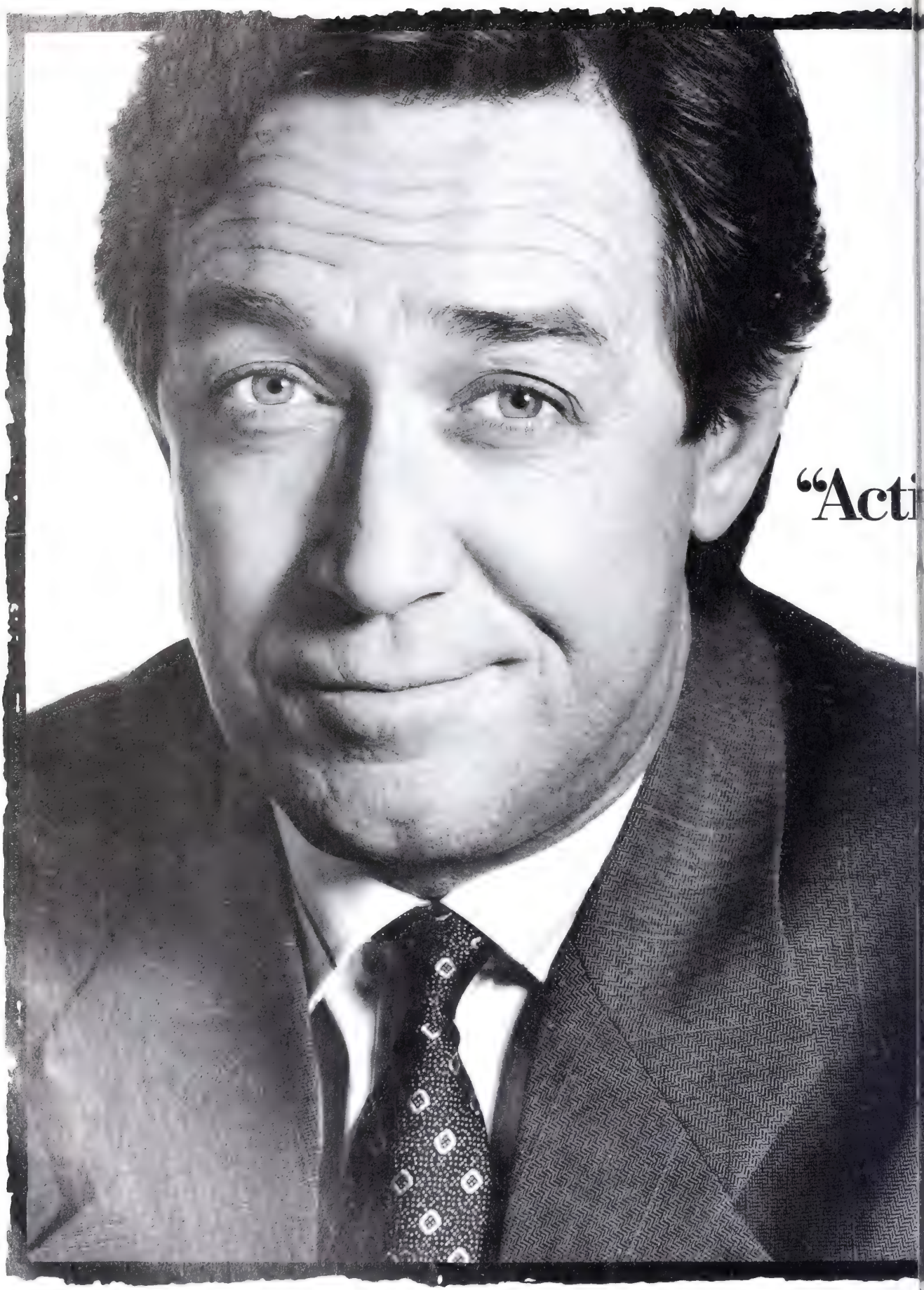
KENNETH W. SIMONDS

El Segundo, Calif. *213-524-5000*

SALES: *$137 mil.* PROFITS: *$10 mil.*

MARKET VALUE: *$317 mil.*

▶ Born 5/5/35, Kingsport, Tenn.; BS (business), East Tenn. State, 1957. Career path–merchandising/marketing; tenure–6 years, CEO 5 years. Compensation: 1989 salary & bonus, $496,000[7]; ownership, 58,000 shares. ▶ Prince of Parallel Processing makes big data-base computers that use more than 1,000 microprocessors–all running at the same time. Just sold 10% stake to NCR, acquired ShareBase, its only competitor. Expects $1 billion in annual revenues by 1994. Sports fanatic. Played college football, semipro baseball.



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;ar I know. Sportswear I know. oftware? Gimme a break."

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THE CORPORATE ELITE

TEXACO

JAMES W. KINNEAR

White Plains, N. Y. *914-253-4000*

SALES: *$32.4 bil.* PROFITS: *$2.4 bil.*

MARKET VALUE: *$15.9 bil.*

▶ Born 3/21/28, Pittsburgh, Pa.; BS (eng.), U. S. Naval Acad., 1950. Career path–merchandising/marketing; tenure–36 years, CEO 4 years. Compensation: 1989 salary & bonus, $1,793,000; ownership, 91,000 shares.[7] ▶ Slowly getting back to normal after Pennzoil suit, fight with Carl Icahn. Devoting much of capital budget to search for new reserves. Found more last year than he drew down–a rarity for Texaco. Promoting high-risk exploration abroad–in Sumatra, Paraguay, other exotic spots. Back home he breeds, trains hunting dogs; grows orchids.

TEXAS INSTRUMENTS

JERRY R. JUNKINS

Dallas, Tex. *214-995-5550*

SALES: *$6.5 bil.* PROFITS: *$292 mil.*

MARKET VALUE: *$2.3 bil.*

▶ Born 12/9/37, Fort Madison, Iowa; BS (elect. eng.), Iowa State, 1959; MS (eng. admin.), SMU, 1968. Career path–eng./tech., prod./mfg.; tenure–31 years, CEO 5 years. Compensation: 1989 salary & bonus, $702,000; ownership, 31,000 shares. ▶ Demand for his personal computers, defense products is off. So he's concentrating on the chip business–about half of total revenues. Patent royalties there particularly lucrative. Active in Dallas community affairs, especially minority issues. Wants to boost TI's business with minority contractors.

TEXAS UTILITIES

JERRY S. FARRINGTON

Dallas, Tex. *214-812-4600*

SALES: *$4.3 bil.* PROFITS: *$888 mil.*

MARKET VALUE: *$6.5 bil.*

▶ Born 7/7/34, Burkburnett, Tex.; BBA, (1955), MBA (1958), U. of North Tex. Career path–administration; tenure–33 years, CEO 4 years. Compensation: 1989 salary & bonus, $500,000; ownership, 12,000 shares. ▶ Still no glow at the end of his nuke tunnel. His $9 billion Comanche Peak plant is now running, but he's fighting to win 10.2% rate hike. Regulators' audit criticizes more than $700 million in "imprudent" construction costs. More problems may lie ahead with Unit 2, which is under construction and scheduled to operate in '93.

TEXTRON

BEVERLY F. DOLAN

Providence, R. I. *401-421-2800*

SALES: *$7.4 bil.* PROFITS: *$269 mil.*

MARKET VALUE: *$1.8 bil.*

▶ Born 11/9/27, Augusta, Ga.; BS, U. of Ga., 1952. Career path–production/manufacturing; tenure–36 years, CEO 6 years. Compensation: 1989 salary & bonus, $2,317,000[1]; ownership, 52,000 shares. ▶ His diversification helped hike sales and profits, but he's still singing the defense-contractor blues. Big contracts for M-1 tank engine, helicopter/airplane in jeopardy. And he settled $18 million whistleblower case, one of largest ever. His auto-supply business isn't helping, though Avco financial and Paul Revere Insurance arms are doing alright.

THERMO ELECTRON

GEORGE NICHOLAS HATSOPOULOS

Waltham, Mass. *617-622-1000*

SALES: *$579 mil.* PROFITS: *$25 mil.*

MARKET VALUE: *$494 mil.*

▶ Born 1/7/27, Athens, Greece; BS (1949), MS (mech. eng., 1950), ME (thermodyn., 1954), ScD (1956), MIT. Career path–engineering/technical; tenure–34 years, CEO 34 years. Compensation: 1989 salary & bonus, $585,000; ownership, 515,000 direct, 76,000 indirect shares. ▶ Loves to talk economics. Enjoys cooking, too, but hasn't had time for anything but fast food lately: Company develops technologies, spins them off as public companies. Done it seven times so far. Currently makes everything from power plants to turbine blades. Profits up 22% last year.

THERMO INSTRUMENT SYSTEMS

ARVIN H. SMITH

Waltham, Mass. *617-622-1000*

SALES: *$128 mil.* PROFITS: *$12 mil.*

MARKET VALUE: *$363 mil.*

▶ Born 5/16/29, McLean, Tex.; BS (physics & math), TCU, 1959. Career path–engineering/technical; tenure–20 years, CEO 4 months. Compensation: 1989 salary & bonus, $120,000[2]; ownership, 98,000 shares. ▶ How dirty is your car's exhaust? His test gear helps regulators measure it–and sales are growing more than 30% a year. Company spun off by Thermo Electron in 1986. He merged with another spin-off, made acquisition to become leader in high-tech testing. Former NASA engineer says business travel leaves him little time for golf or tennis.

THOMAS & BETTS

T. KEVIN DUNNIGAN

Bridgewater, N. J. *201-685-1600*

SALES: *$544 mil.* PROFITS: *$54 mil.*

MARKET VALUE: *$766 mil.*

▶ Born 1/31/38, Montreal, Quebec, Canada; AB (commerce), Loyola, 1971. Career path–merchandising/marketing; tenure–28 years, CEO 6 years. Compensation: 1989 salary bonus, $449,000; ownership, 23,000 shares. ▶ Genial, self-described "marketing and products guy" spends about half his time ng facilities, customers. Profits soft: Markets for products s wire fasteners and ceramic chip capacitors are weak or ly competitive. Yet he's confident enough to add capacity. cycling, but gave up skiing after bad knee accident.

TIDEWATER

JOHN PETER LABORDE

New Orleans, La. *504-568-1010*

SALES: *$203 mil.* LOSS: *$8 mil.*

MARKET VALUE: *$515 mil.*

▶ Born 11/5/23, Marksville, La.; BS (law prep.), La. State, 1947; JD, La. State Law, 1949. Career path–administration; tenure–34 years, CEO 34 years. Compensation: 1989 salary & bonus, $364,000; ownership, 142,000 shares. ▶ Created not just this company but his industry–which operates crew and supply boats that supply offshore drilling rigs. Survived the oil-patch slump (one of the few) and just turned first quarterly profit since 1986. Adding to his fleet, too, often with used vessels. Fought off raiders Irwin Jacobs and Industrial Equity Pacific.

TIMES MIRROR

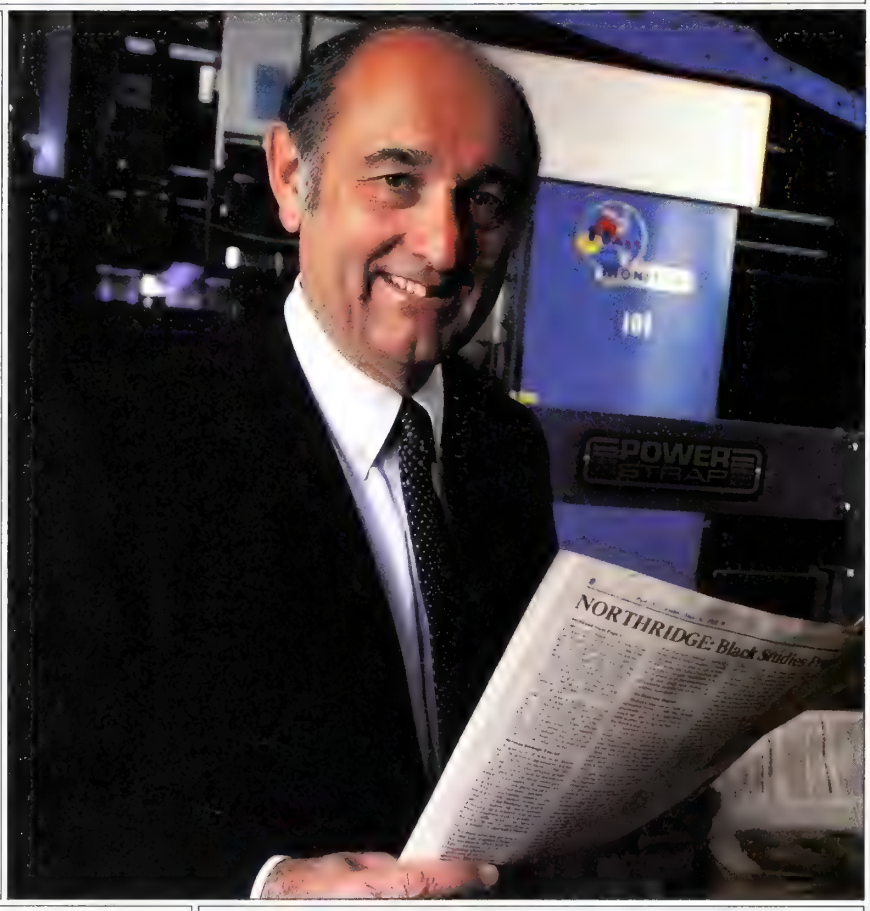
ROBERT F. ERBURU

Los Angeles, Calif. *213-237-3700*

SALES: *$3.5 bil.* PROFITS: *$298 mil.*

MARKET VALUE: *$3.3 bil.*

▶ BORN 9/27/30, VENTURA, CALIF.; BA (JOURNALISM), USC, 1952; JD, HARVARD LAW, 1955. CAREER PATH–LEGAL; TENURE–29 YEARS, CEO 9 YEARS. COMPENSATION: 1989 SALARY & BONUS, $1,146,000; OWNERSHIP, 167,000 SHARES. ▶ EXTRA, EXTRA. HIS FLAGSHIP *LOS ANGELES TIMES* IS NOW NATION'S LARGEST METRO DAILY, THANKS IN PART TO CLOSING OF RIVAL *HERALD-EXAMINER*. STAFFERS NOW DIVIDED OVER PAPER'S FUTURE. SOME WANT MORE LOCALIZED COVERAGE, OTHERS ONE PRODUCT FOR ALL. BUT STRONGEST PERFORMANCE AT HIS MEDIA GIANT COMES FROM BOOK PUBLISHING–ONLY OPERATION THAT'S NOT ADVERTISER-DRIVEN. OTHERWISE, *TIMES, NEWSDAY, BALTIMORE SUN, HARTFORD COURANT* HURT BY WEAK AD SALES. SAME FOR COMPANY'S BROADCASTING, CABLE-TV OPERATIONS. HE'S INVOLVED IN LOCAL COMMUNITY AFFAIRS, CHAIRMAN OF SAN FRANCISCO FED. ART PATRON. BIG USC BOOSTER.



PHOTOGRAPH NANCY RICA SCHIFF

TIFFANY

WILLIAM R. CHANEY

New York, N. Y. *212-755-8000*

SALES: *$384 mil.* PROFITS: *$33 mil.*

MARKET VALUE: *$544 mil.*

▶ Born 7/31/32, Satanta, Kan.; BS (business), U. of Kan., 1953. Career path–merchandising/marketing, sales; tenure–7 years, CEO 7 years. Compensation: 1989 salary & bonus, $661,000; ownership, 200,000 direct, 96,000 indirect shares. ▶ There's a surprising facet to his sparkling performance. Domestic operations weak–especially at Fifth Avenue flagship. But Mitsukoshi, which owns 14% of his company, now sells his baubles at 26 locations in Japan. Demand is robust, so he plans more overseas moves. New stores, too, in Philadelphia, San Diego.

TIME WARNER

STEVEN J. ROSS

New York, N. Y. *212-522-1212*

SALES: *$7.6 bil.* LOSS: *$256 mil.*

MARKET VALUE: *$4.5 bil.*

▶ Born 9/19/27, Brooklyn, N. Y.; BA (business), Paul Smith, 1948. Career path–communications; tenure–1 year, CEO 1 year. Compensation: 1989 salary & bonus, $4,800,000[3]; ownership, 177,000 shares.[7] ▶ He and Time's Nick Nicholas are billed as equals–but some outsiders think Warner's boss, with his trove of show-biz contacts, is really top banana, especially since movies and records have done better than magazines. Regardless of who's in charge, there's a tough assignment: Pare massive debt and boost the slumping share price.

TIMKEN

W. R. TIMKEN JR.

Canton, Ohio *216-438-3000*

SALES: *$1.5 bil.* PROFITS: *$55 mil.*

MARKET VALUE: *$799 mil.*

▶ Born 12/21/38, Canton, Ohio; BA, Stanford, 1960; MBA, Harvard, 1962. Career path–administration; tenure–28 years, CEO 15 years. Compensation: 1989 salary & bonus, $513,000; ownership, 102,000 direct, 393,000 indirect shares. ▶ Steady hand makes big, long-term bets on basic bearing and steel business. In middle of $1 billion investment in bearings. Threw one wild pitch: Paid $185 million for MPB, maker of ultra-precise ball and straight-roller bearings–a different business than his core tapered bearings. That's a production challenge.

TJX

BERNARD CAMMARATA

Framingham, Mass. *508-390-3000*

SALES: *$2.1 bil.* PROFITS: *$76 mil.*

MARKET VALUE: *$968 mil.*

▶ Born 2/7/40, Brooklyn, N. Y. Career path–merchandising/marketing; tenure–13 years, CEO 13 years. Compensation: 1989 salary & bonus, $731,000; ownership, 204,000 shares. ▶ Operates remnants of the old Zayre retailing empire that weren't acquired by now-bankrupt Ames. That deal stuck him with an awkward interest in Ames, too, which led to a recent $172 million write-off. Performance at his own stores has been mixed: T. J. Maxx beating the competition; Hit or Miss both hitting and missing. He enjoys golf, ballroom dancing.

We'd like to point out a few of th

enefits of financial risk management.

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TOOTSIE ROLL INDUSTRIES

MELVIN J. GORDON

Chicago, Ill. *312-838-3400*

SALES: *$179 mil.* PROFITS: *$20 mil.*

MARKET VALUE: *$332 mil.*

▶ Born 1/1/19, Boston, Mass.; AB (econ., 1941), MBA (1943), Harvard. Career path–general mgmt.; tenure–28 years, CEO 28 years. Compensation: 1989 salary & bonus, $583,000; ownership, 199,000 direct, 2,097,000 indirect shares. ▶ Master of leveraging a few well-known brands keeps rolling out new candies. Latest are Tootsie Bar, chocolate bar with Tootsie Roll center, and Tootsie Bar miniatures. Sales, profits sweeter each year. Shares duties with wife, Ellen, who inherited company from her dad. They also share about 50% of the stock.

TOPPS

ARTHUR T. SHORIN

Brooklyn, N. Y. *718-768-8900*

SALES: *$246 mil.* PROFITS: *$38 mil.*

MARKET VALUE: *$588 mil.*

▶ Born 6/10/35, New York, N. Y.; BS (marketing), NYU, 1958. Career path–merchandising/marketing; tenure–33 years, CEO 11 years. Compensation: 1989 salary & bonus, $918,000; ownership, 3,246,000 shares. ▶ Scoring lots of runs because his company, a refloated Forstmann Little LBO, enjoys a 50% share in baseball cards. Trying to preserve the winning streak, he's expanding distribution to include supermarkets, adding card lines that feature pop figures such as Ninja Turtles, Batman, etc. Loves musicals, especially Stephen Sondheim.

TORCHMARK

RONALD K. RICHEY

Birmingham, Ala. *205-325-4200*

SALES: *$1.6 bil.* PROFITS: *$211 mil.*

MARKET VALUE: *$2.4 bil.*

▶ Born 6/16/26, Erie, Kan.; BA, Washburn, 1949; LLB, Washburn Law, 1951. Career path–legal; tenure–26 years, CEO 6 years. Compensation: 1989 salary & bonus, $1,078,000; ownership, 446,000 direct, 46,000 indirect shares. ▶ Anything-but-staid insurance man. Made hostile bid for American General, rebuffed by board, waged unsuccessful proxy fight. Now, AmGen is for sale–and he's bidding again. Sees potential savings by cutting expenses there to level he's achieved at his own company. Avid golfer, with two golden retrievers.

TOSCO

THOMAS D. O'MALLEY

Santa Monica, Calif. *213-207-6000*

SALES: *$1.4 bil.* PROFITS: *$40 mil.*

MARKET VALUE: *$319 mil.*

▶ Born 7/20/41, New York, N. Y.; BS (econ.), Manhattan, 1963. Career path–trading; tenure–11 months, CEO 11 months. Compensation: 1989 salary & bonus, $400,000[7]; ownership, 831,000 indirect shares.[8] ▶ Ex-head of commodity trader Phibro Salomon's energy operations (he started in mailroom), left to head limited partnership with a 28% stake in this refiner. Initially planned to sell out, but now will gain from rising oil prices. One-third of output goes to ARCO. Big winner if oil shale becomes competitive. Into Europe, fine art–which adorns his office.

TOTAL SYSTEM SERVICES

RICHARD W. USSERY

Columbus, Ga. *404-649-2210*

SALES: *$66 mil.* PROFITS: *$11 mil.*

MARKET VALUE: *$524 mil.*

▶ Born 5/7/47, Columbus, Ga.; BS (business admin.), Auburn, 1969. Career path–data processing, opers.; tenure–25 years, CEO 8 years. Compensation: 1989 salary & bonus, $208,000; ownership, 13,000 direct, 47,000 indirect shares. ▶ His hobby's cooking, New Orleans-style, and he's got quite a recipe for success at this credit-card processor, too. Aims to more than double accounts, to 40 million, by 1995–and just might do it. Big kick from new AT&T Universal card account. A believer in technology, he's gearing for growth with new software.

TOYS 'R' US

CHARLES P. LAZARUS

Paramus, N. J. *201-262-7800*

SALES: *$4.8 bil.* PROFITS: *$321 mil.*

MARKET VALUE: *$7.3 bil.*

▶ Born 10/4/23, Washington, D. C. Career path–entrepreneur; tenure–42 years, CEO 42 years. Compensation: 1989 salary & bonus, $5,277,000; ownership, 66,000 direct, 87,000 indirect shares. ▶ Sales growth "slowing" to 19% after 10-year average of 25%, but this legendary toyman still plays from strength. While competing chains are in the doldrums, his expansion continues, especially in Europe, Asia. But if meal ticket Nintendo slows down, he'll need another hot item like Trivial Pursuit or Cabbage Patch kids to build store traffic.

TRANSAMERICA

JAMES ROSS HARVEY

San Francisco, Calif. *415-983-4000*

SALES: *$6.8 bil.* PROFITS: *$332 mil.*

MARKET VALUE: *$2.3 bil.*

▶ Born 8/20/34, Los Angeles, Calif.; BSE, eton, 1956; MBA, U. of Calif. at Berkeley, 1963. Career path– istration; tenure–26 years, CEO 10 years. Compensation: alary & bonus, $1,386,000[1]; ownership, 66,000 shares.[7] Still getting crunched by insurance cycle and says he might get f laggards. Property/casualty's one candidate. Life insur- d commercial finance units are sluggish, too, and so's his in big insurance broker Sedgwick Group. But he's got assets, little junk. Off-hours, works his ranch in Moraga.

TRANSCO ENERGY

GEORGE S. SLOCUM

Houston, Tex. *713-439-2000*

SALES: *$3 bil.* PROFITS: *$112 mil.*

MARKET VALUE: *$1.3 bil.*

▶ Born 9/9/40, East Orange, N. J.; BA (econ., 1962), MBA (1967), Cornell. Career path–finance/accounting; tenure–12 years, CEO 3 years. Compensation: 1989 salary & bonus, $673,000; ownership, 23,000 shares.[8] ▶ Tennis player won compromise with regulators, so he's recovering some of the hit he took on take-or-pay gas costs. Virtually out of exploration and production since last year, he's now focusing on pipelines, including $60 million expansion of gas line to Southeast. Bought Texas Gas Transmission, feeding Indiana, Ohio. Alma mater trustee.

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TRAVELERS

EDWARD H. BUDD

Hartford, Conn. *203-277-0111*

SALES: *$12.5 bil.* PROFITS: *$424 mil.*

MARKET VALUE: *$2.4 bil.*

▶ Born 4/30/33, Zanesville, Ohio; BS (physics), Tufts, 1955. Career path–actuarial; tenure–35 years, CEO 9 years. Compensation: 1989 salary & bonus, $950,000; ownership, 90,000 direct, 4,000 indirect shares. ▶ Works out in company health center. Now, he needs to get insurer in shape, too. Realigned top management and took big charge to reorganize along major product lines. Pulling out of home insurance in nine states, auto insurance in 10 states; pinning hopes on managed care, employee benefits. Real estate investments will continue to hurt.

TRIBUNE

CHARLES T. BRUMBACK

Chicago, Ill. *312-222-9100*

SALES: *$2.5 bil.* PROFITS: *$242 mil.*

MARKET VALUE: *$2.5 bil.*

▶ Born 9/27/28, Toledo, Ohio; AB (econ.), Princeton, 1950. Career path–finance; tenure–9 years, CEO 2 months. Compensation: 1989 salary & bonus, $833,000; ownership, 86,000 direct, 27,000 indirect shares. ▶ Decorated Korean War vet will need his toughness in new post. Media company's net fell 20% in first half, squeezed by newsprint unit, losses at New York *Daily News*. Faces big union battle to cut costs at tabloid. But he's done it before: As president of flagship Chicago *Trib* in 1980s, led paper in defeat of craft unions.

TRINITY INDUSTRIES

W. RAY WALLACE

Dallas, Tex. *214-631-4420*

SALES: *$1.3 bil.* PROFITS: *$38 mil.*

MARKET VALUE: *$479 mil.*

▶ Born 3/25/23, Shreveport, La.; BS (civil eng.), La. Tech., 1944. Career path–corporate mgmt.; tenure–44 years, CEO 32 years. Compensation: 1989 salary & bonus, $1,005,000; ownership, 220,000 direct, 504,000 indirect shares. ▶ Fitness buff who jogs, works his several ranches near Dallas. Looking forward to busy year as Mideast crisis boosts demand for company's ships–both from military and oil industry. Also seeing boom in railcars as customers continue to replace aging cars. His goal: nearly doubling revenues to $2 billion by 1995.

TRINOVA

DARRYL F. ALLEN

Maumee, Ohio *419-867-2200*

SALES: *$1.9 bil.* PROFITS: *$33 mil.*

MARKET VALUE: *$531 mil.*

▶ Born 9/7/43, Farmington, Mich.; BA (accounting), Mich. State, 1965; MBA, U. of Mich., 1966. Career path–finance/accounting; tenure–18 years, CEO 4 years. Compensation: 1989 salary & bonus, $707,000; ownership, 23,000 shares. ▶ Collects *Star Trek* memorabilia, but his gaze is fixed not on stars but cash flow. Launched restructuring at industrial-components maker last year, mostly at Aeroquip unit. Will close 40 of 170 facilities, trim lines such as brakes. Benefits won't really show till 1991. For now, industrial weakness pulls income down.

TRW

JOSEPH T. GORMAN

Cleveland, Ohio *216-291-7000*

SALES: *$7.3 bil.* PROFITS: *$263 mil.*

MARKET VALUE: *$2.4 bil.*

▶ Born 10/1/37, Rising Sun, Ind.; BA, Kent State, 1959; LLB, Yale Law, 1962. Career path–legal, general mgmt.; tenure–22 years, CEO 2 years. Compensation: 1989 salary & bonus, $1,060,000; ownership, 34,000 direct, 1,000 indirect shares. ▶ Pow! Explosion at his auto airbag plant deflated first-quarter earnings. Then he was blasted again–by troubled Brazilian operations. Still, he's working to tighten financial controls. On the bright side: Defense operations relatively unscathed by Pentagon cutbacks. College basketball player into golf now.

T2 MEDICAL

THOMAS EDWIN HAIRE

Alpharetta, Ga. *404-442-2160*

SALES: *$38 mil.* PROFITS: *$8 mil.*

MARKET VALUE: *$318 mil.*

▶ Born 8/13/44, Trenton, Mich.; BS (business), Central Mich., 1966. Career path–merchandising/marketing; tenure–6 years, CEO 1 year. Compensation: 1989 salary & bonus, $258,000; ownership, 298,000 direct, 183,000 indirect shares. ▶ Pronounce it "t-squared." Fast-growing company sells equipment and services for at-home infusion therapy–drugs or food via tube or IV. Home-treatment is booming as a medical cost-containment measure. A fan of decentralized management, he's a golfer, a car buff, and has coached Little League for 20 years.

TURNER BROADCASTING SYSTEMS

ROBERT EDWARD TURNER

Atlanta, Ga. *404-827-1700*

SALES: *$1.1 bil.* PROFITS: *$28 mil.*

MARKET VALUE: *$1.8 bil.*

▶ Born 11/19/38, Cincinnati, Ohio; attended Brown. Career path–communications; tenure–27 years, CEO 27 years. Compensation: 1989 salary & bonus, $675,000; ownership, 18,185,000 direct, 187,000 indirect shares. ▶ Ted's Goodwill Games generated ill will among big shareholders Time Warner, Tele-Communications. But he dug in his heels, and now has ...ned approval of a repeat. Domestic cable-programming mar... saturated, facing reregulation, so revenue growth's abroad. ...sitioned there–and with current flame Jane Fonda.

TW HOLDINGS

JEROME J. RICHARDSON

Spartanburg, S. C. *803-579-8700*

SALES: *$3.5 bil.* LOSS: *$56 mil.*

MARKET VALUE: *$474 mil.*

▶ Born 7/18/36, Spring Hope, N. C.; BA (psychology), Wofford, 1959. Career path–restaurant mgmt.; tenure–29 years, CEO 3 months. Compensation: 1989 salary & bonus, $696,000; ownership, 4,064,000 shares. ▶ Caught touchdown pass for Baltimore Colts in 1959 NFL championships. Later, built largest Hardee's franchise system–now part of company, along with Canteen, Denny's. Runs things for Coniston Partners, which has control but needs financing for bridge loan. With son Mark, working hard to bring NFL franchise to Charlotte, N. C.

20TH CENTURY INDUSTRIES

LOUIS WILLIAM FOSTER

Woodland Hills, Calif. *818-704-3400*

SALES: *$706 mil.* PROFITS: *$91 mil.*

MARKET VALUE: *$552 mil.*

▶ Born 3/9/13, Newberry, Mich.; BA (business), Stanford, 1935. Career path–merchandising/marketing; tenure–32 years, CEO 32 years. Compensation: 1989 salary & bonus, $754,000; ownership, 2,363,000 shares.[7] ▶ Started insurance company with one secretary, 600-square-foot office. Now occupies 11-story building in Woodland Hills, equally lofty place in property-casualty industry. Insures low-risk drivers, mostly in huge urban L. A. market, via direct sales–no agents. Boys & Girls Club named a center after him to honor his contributions.

TYCO LABORATORIES

JOHN FRANKLIN FORT

Exeter, N. H. *603-778-9700*

SALES: *$2.1 bil.* PROFITS: *$119 mil.*

MARKET VALUE: *$2.2 bil.*

▶ Born 10/12/41, New York, N. Y.; BS (aeronautical eng.), Princeton, 1963; MS (indust. mgmt.), MIT, 1966. Career path–engineering/technical, production/manufacturing, operations; tenure–26 years, CEO 8 years. Compensation: 1989 salary & bonus, $1,170,000; ownership, 476,000 shares.[8] ▶ His appetite for acquisitions went international, buying fire protection equipment companies in Australia, Britain, Holland. It's paid handsomely: revenues up 31%. He expects 1991 sales to top $3 billion. Avid skier, climber has been known to chill-out in Antigua.

TYSON FOODS

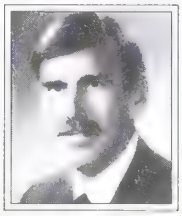
DONALD JOHN TYSON

Springdale, Ark. *501-756-4000*

SALES: *$2.5 bil.* PROFITS: *$101 mil.*

MARKET VALUE: *$1.9 bil.*

▶ Born 4/21/30, Olathe, Kan.; attended U. of Ark. Career path–merchandising/marketing; tenure–37 years, CEO 23 years. Compensation: 1989 salary & bonus, $3,560,000; ownership, 154,000 direct, 493,000 indirect shares. ▶ Already nation's cock of the walk in poultry, plans to double sales to $8 billion by 1995, no chickenfeed. Counting on new products (kids' microwave meals for kids), sales channels, (Wal-Mart, wholesale clubs). Adding distribution for Holly Farms beef and pork products, too. Will live part-time in England to expand empire there.



UAL

STEPHEN M. WOLF

Elk Grove Village, Ill. *708-952-4000*

SALES: *$9.8 bil.* PROFITS: *$324 mil.*

MARKET VALUE: *$2 bil.*

▶ Born 8/7/41, Oakland, Calif.; BA, San Francisco State, 1965. Career path–merchandising/marketing; tenure–3 years, CEO 3 years. Compensation: 1989 salary & bonus, $1,150,000; ownership, 75,000 shares.[8] ▶ If carrier's $4.3 billion union-led buyout goes through, he'll lose his job. If not, board may still have to replace him because of strained relations with workers. Detail oriented. Demanding boss engineered turnarounds at Republic and Tiger by rallying employee support for wage cuts–something he hasn't been able to do at UAL

UJB FINANCIAL

T. JOSEPH SEMROD

Princeton, N. J. *609-987-3200*

SALES: *$1.2 bil.* PROFITS: *$119 mil.*

MARKET VALUE: *$502 mil.*

▶ Born 12/13/36, Oklahoma City, Okla.; BS, U. of Okla., 1958; LLB, U. of Okla. Law, 1963. Career path–banking; tenure–9 years, CEO 9 years. Compensation: 1989 salary & bonus, $827,000; ownership, 147,000 direct, 4,000 indirect shares. ▶ Blunt talker admits he doesn't know when real estate market will rebound. So far, it's handing him more loan losses, lower earnings. Cutting expenses, merging units at No. 3 New Jersey bank-holding company. Picked up failed Pennsylvania S&L from feds. Mountain climber, active in National Urban League.

UNION BANK

SEISHICHI ITOH

San Francisco, Calif. *415-774-6000*

SALES: *$1.7 bil.* PROFITS: *$139 mil.*

MARKET VALUE: *$643 mil.*

▶ Born 2/16/35, Amagasaki City, Japan; AB, U. of Osaka, 1957. Career path–banking, finance; tenure–18 years, CEO 5 years. Compensation: 1989 salary & bonus, $406,000; ownership, 5,000 shares.[7] ▶ Cautious, low-key boss of California's fifth-largest bank runs conservative loan portfolio and innovative consumer operation. Major commitment to in-store banking with 10 full-service branches in Ralphs supermarkets. Returning to Japan at month's end. Successor is Vice-chairman Taisuke Shimizu, 64,longtime executive with Tokyo parent.

UNION CAMP

RAYMOND E. CARTLEDGE

Wayne, N. J. *201-628-2000*

SALES: *$2.8 bil.* PROFITS: *$299 mil.*

MARKET VALUE: *$2.2 bil.*

▶ Born 6/12/29, Pensacola, Fla.; BS, U. of Ala., 1952. Career path–merchandising/marketing; tenure–34 years, CEO 5 years. Compensation: 1989 salary & bonus, $778,000; ownership, 35,000 shares. ▶ Laid-back stlyle and Southern drawl mask competitive fire he'll need as prices fall in two product areas: linerboard and uncoated business papers. But if sales are flat, his balance sheet is strong–and he isn't deviating from a $1.3 billion program aimed at increasing capacity and making him lowest-cost, highest-quality paper producer.

UNION CARBIDE

ROBERT DELMONT KENNEDY

Danbury, Conn. *203-794-2000*

SALES: *$8.7 bil.* PROFITS: *$573 mil.*

MARKET VALUE: *$2.4 bil.*

▶ Born 11/8/32, Pittsburgh, Pa.; BS (mech. eng.), Cornell, 1955. Career path–merchandising/marketing; tenure–35 years, CEO 4 years. Compensation: 1989 salary & bonus, $1,410,000[1]; ownership, 68,000 shares. ▶ Junk-bond jitters chilled his LBO plans, but he'll try to shore up stock price with a buyback, an ESOP, some asset sales, and restructuring of industrial gas business. Wants 20% ROE long-term. Then there's Bhopal, where an Indian court must rule on an appeal of settlement terms. Active in business efforts to improve education.

FOOTNOTES APPEAR ON PAGE 292

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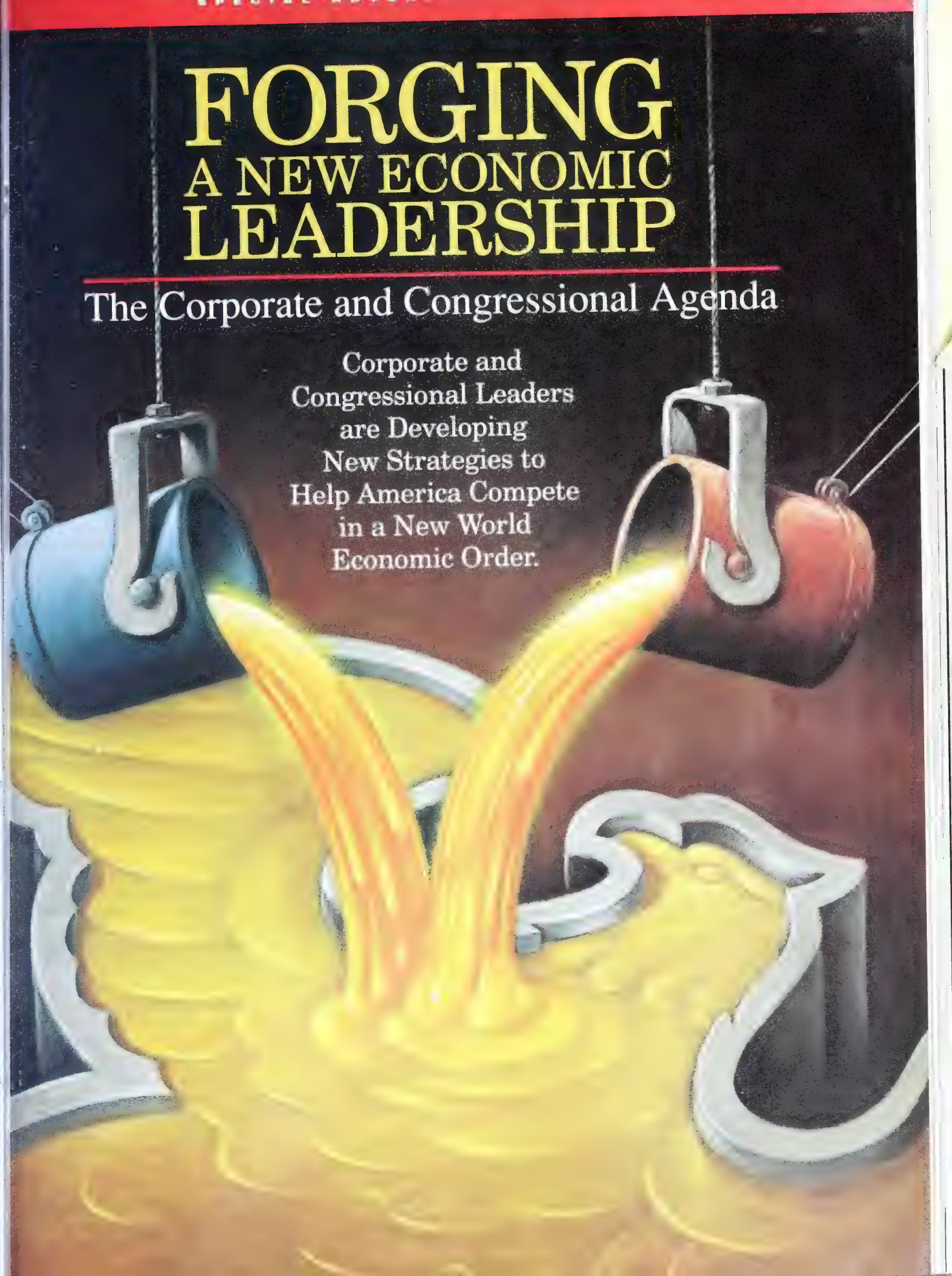
FORGING A NEW ECONOMIC LEADERSHIP

The Corporate and Congressional Agenda

Corporate and Congressional Leaders are Developing New Strategies to Help America Compete in a New World Economic Order.



FORGING A NEW ECONOMIC LEADERSHIP

BY JOE KOLMAN

THE PAST YEAR HAS ALREADY been called a turning point in history. The political order which controlled Europe for most of the century has been shattered, and a new order has yet to be established. The most critical battlefields of the future, it seems, will be economic rather than military. How should American corporations prepare for this new era of unprecedented political and economic change?

CEOs from more than 100 major American corporations got a chance to sit down with Congressional leaders of both parties to discuss that question at a symposium entitled "Forging a New Economic Leadership: The Corporate and Congressional Agenda." The conference, presented by Business Week, the Congressional Economic Leadership Institute, and the Congressional Competitiveness Caucus, was held October 10-12 at the Willard Inter-Continental Hotel in Washington, D.C.

The symposium began with an ominous word of caution from Zbigniew Brzezinski, former national security adviser to President Carter. Brzezinski warned that if current economic reforms in Eastern Europe falter, the first flush of ecstatic emancipation could be followed by explosive nationalism. "We must seize the moment in Central Europe," he declares. America can't afford to let domestic reforms give way to nationalist right-wing authoritarianisms."

To prevent a disastrous slide into political and economic chaos, Brzezinski urged the United States and its allies to support economic aid to the region and to help establish a "trans-european Commonwealth" embracing all of Europe and, eventually, the Soviet Union. He proposed that America's share of the cost, which he estimated at $25 billion to $30 billion, could be funded by reducing a portion of the $140 billion we now spend on the military defense of Western Europe.

At a session entitled "Confronting Global Competition in the U.S. and Abroad," Terry Lautenbach, senior vice president and general manager of IBM/US, voiced concerns about what he called "an increasingly difficult business environment for electronics manufacturers." Lautenbach said that the American consumer electronics infrastructure has virtually disappeared and that the nation's material and tool suppliers, upon which the electronics industry relies, are struggling to survive.

"Joint ventures can reduce business and technical risks and help the infrastructure supporting the electronics industry."

TERRY R. LAUTENBACH
Senior Vice President and General Manager, IBM/US

Lautenbach also outlined plans for IBM's new advanced semiconductor technology center in East Fishkill, N.Y. Although he said IBM's total investment in the project will exceed $1 billion, the facility is already competing with two similar projects in Japan and Europe sponsored by joint venture partners and financed with a combination of private and government funds. To rebuild America's electronics infrastructure, Lautenbach believes that Congress should pass legislation encouraging production joint ventures, which he believes are necessary if American companies are to compete with their better financed rivals.

Frederick W. Smith, Chairman, President and Chief Executive Officer, Federal Express Corporation added that the quickening pace of telecommunications will force companies to speed up their manufacturing and distribution cycles. "Telecommunications systems will let consumers everywhere know what's hot," he explained. "Jet transportation will allow them to get what they want almost immediately."

And panelist Randy Fields, Chairman of the Board, Mrs. Fields Inc., and Chairman, Fields Software Group, warned CEOs against overstating the strengths of the competitors. "We many be facing some formidable foreign competition in terms of hardware, but when it comes to applying and using technology, America still has the innovation, talent, and vision to hold its position in the marketplace."

America's relationship with Japan, its chief competitor and trading partner, was the subject of a session chaired by Rep. Marcy Kaptur (D-Ohio), co-chair of the Congressional Competitiveness Caucus. Kaptur said that the relationship between the U.S. and Japan couldn't move from confrontation to a more mutually beneficial economic relationship until Japan opened more of its markets to American products.

Kaptur was joined at the session by Representative Frank R. Wolf (R-Va.), who shared Kaptur's concerns about foreign trade barriers, but warned against

FORGING A NEW ECONOMIC LEADERSHIP

onding with potentially dangerous ectionist trade policies such as import as and domestic content requirements. Representative Claudine Schneider R.I.), co-chair of the Congressional petitiveness Caucus, led a session mining how American companies could and license the technologies they ady have. Schneider noted that a nt International Trade Commission ly had concluded that American com- ies lost nearly $24 billion as a result of nterfeiting of intellectual property in nt years. She called on the Adminis- ion to take stronger steps to protect nologies owned by American business- n international trade negotiations.

Representative Sherwood Boehlert N.Y.) added that the country is not king best use of the technology it has ady paid for. 'The federal government been subsidizing the cultivation of wledge in research laboratories, but t knowledge has been warehoused ner than consumed," he explained. He ed for a national industrial extension gram to help businesses exploit any mercially applicable technological akthroughs.

This university research is critical to erica's future, said fellow panelists presentative Norman Mineta (D-Calif.) d Representative Don Ritter (R-Pa.). ey accused some Bush Administration cials of stifling American technological novation by trying to eliminate govern- nt funding for high-technology research grams. "Limited investments by the eral government can create high lever- e in the private sector if they are made partnership with American industry," d Ritter.

If America is to make any headway ainst its new international competition, will have to make dramatic improve- nts in the basic educational skills of its izens, which lag woefully behind those Japan and Western Europe. America's glect of public education is having bottom-line impact on business: Many mpanies are now facing acute shortages trained workers. And the situation getting worse.

Larry D. Horner, CEO of KPMG/Peat arwick, discussed the growing mismatch tween jobs and people at a session devot- l to meeting these critical educational needs. "Minorities, who make up a third of the net additions to the work force during that time, should logically fill many of those positions. But most of the students coming through the educational pipeline will be unable to do so."

"CEOs should set up multi-disciplinary teams which use a common information base to encourage team-work and trigger action across functional areas."

DAVID TEIGER
Chairman and CEO, United Research

Horner said the problem also extends to those already employed. A third of the 100 million adults working today may be deficient in the basic skills that could enable them to adapt to the changing job demands of the future. To take advantage of the new opportunities that a dynamic economy provides, the country needs more than workers with basic skills. It needs highly trained, adaptable people who have mastered higher-order skills: how to define problems, test alternatives, question assumptions, and organize groups to work on common tasks.

Horner told his fellow CEOs to insist that young people gain quantifiable skills in school and to hold local school districts and state boards of regents responsible. He also said that government and business should take steps to insure that all adults who need it—perhaps 20 million

The Three Major Trading Areas

What new economic and trade relations will evolve as the ideological rivalries of the Cold War recede? Is America destined to lose its leadership role in this new world economic order?

Introducing a session entitled "The End of the Cold War and the Reemergence of Economic Regionalism," MCI Communications Corp. President Bert C. Roberts, Jr. sketched some provocative ideas about the emerging economic order and suggested a promising role for the United States.

"With the Iron Curtain in tatters, the bipolar world of the Cold War is disappearing," Roberts said. "We seem to be headed toward a future of economic regionalism with three centers: Japan, Germany, and America. A major new phenomenon today in contrast to 50 years ago is the peaceful integration of these regional economies best symbolized by the European Community."

Roberts suggested that the United States could have a unique competitive edge in this regional realignment: The heaviest flows of goods, capital, and information could converge in the United States. "The challenge for the United States," Roberts said, "will be to leverage its central geographic position, its open economy, and its traditional strengths as the center of advanced technology and innovation." The United States could thus become a pivotal hub of a variety of economic activities among the three major regions. ■

FORGING A NEW ECONOMIC LEADERSHIP

to 30 million Americans—obtain help in learning to read and write.

Panelist Senator James Jeffords (R-Vt.) pointed out that efforts to improve educational opportunities for minorities have been frustrated by a funding shift from student grants to loans, which has forced many low-income students away from higher education. "If we are to provide equal access for all our young people, we must find alternative ways to encourage families to save for college education," said Jeffords. And Representative Steve Gunderson (R-Wi.) noted that schools often don't teach students the skills they need to succeed in the workplace. Gunderson would improve vocational and technical education programs and sponsor closer links between school and business leaders.

Students aren't the only ones who need to be better educated. To keep up with the competition, CEOs will have to rethink the way they traditionally do business, and learn to tap the knowledge existing within their own companies.

David Teiger, chairman and CEO of United Research, a global management and consulting firm, said that tight labor markets and leaner organizational structures are forcing CEOs to use their employees more effectively. That most often means changing to more fluid management systems that encourage consensus building and power sharing. "Instead of traditional organizational structures, CEOs should set up multi-disciplinary teams which use a common information base to encourage teamwork and trigger action across functional areas," he said. The goal, he explained, is to give employees more authority to cement long-term and mutually beneficial customer relationships.

Teiger noted that the reorganization of a company's reporting relationships, approval processes, and measurement systems can help eliminate red tape and allow a CEO to speed up changes throughout his company. "Speed itself may well become the most significant competitive dvantage of the nineties," added fellow nelist David R. Carpenter, chairman Transamerica Life Companies. panies that are agile and can change n quickly don't trip and fall when ions change."

"The challenge for the United States will be to leverage its central geographic position, its open economy, and its traditional strengths as the center of advanced technology and innovation."

BERT C. ROBERTS, JR.
President, MCI Communications Corporation

"The nation needs not only highly trained people, but adaptable people who can take advantage of the new opportunities a dynamic economy provides."

LARRY D. HORNER
CEO, KPMG/Peat Marwick

A final session analyzed the busin impact of the Americans with Disabilit Act, which has been called the most f reaching civil rights bill in more tha quarter-century. Alan Reich, president the National Organization on Disabil told CEOs that hiring people with disa ities was one of the best ways to expa their workforce in an increasingly tig labor market. Reich explained that the n legislation does not require businesses hire unqualified people, but rather insu that qualified individuals won't be d qualified solely because of their disabil And fellow panelist Attorney Gene Richard Thornburgh promised he wo enforce the new law as vigorously as a other civil rights legislation.

Representative Steny Hoyer (D-M pointed out that hiring the disabled wo allow businesses to help reduce the natio tax burden. "Government now spen $170 billion a year maintaining the depe dency of the disabled, more than $75 b lion direct from the federal governmen he said. "Yet 66% of unemployed disabl say they want to work, and 82% say th would relinquish their government ben fits in favor of a full-time job."

CEOs at the conference heard an e quent speech from former White Hou Press Secretary James Brady who learn to talk, walk, and read again after taki a bullet to the head in the 1981 assassin tion attempt on former President Reaga "We disabled want opportunity and fa ness, not pity or sympathy," Brady sa We want to be included and to participa and contribute to our nation, just li everyone else." At the end of the confe ence, Brady called on CEOs and Congre to "tear down the walls" separating t disabled from the rest of society.

The forces of change aren't just brea ing down the walls of discriminati against the disabled. They are breaki down walls of political and econom repression across the world. America business, which has only recently beg to adapt itself to competing in the ne global marketplace, has been forced reevaluate its strategies once more. T three-day conference did not gi American business and Congression leaders all the answers. But it did gi them a rare chance to hammer out a aggressive new agenda for the future. ■

EVEN WITH MS, TAMMY HITCHCOCK IS FLYING HIGH

Tammy was just about to make her first free-fall jump when she learned she had multiple sclerosis. After the initial shock subsided, she determined that she would not give up skydiving — "no matter what." And she hasn't. Using equipment modified to compensate for balance problems, visual distortion and faulty depth perception, Tammy spends almost every week-end skydiving.

Tammy's accomplishments are truly remarkable, especially when you consider that multiple sclerosis short circuits the central nervous system and robs the body of stamina and coordination. Tammy has high hopes that one day a cure will be found.

The National Multiple Sclerosis Society is bringing that day closer for over 250,000 Americans who suffer from MS. Through its funding, major hospitals and universities can continue vital research in virology, genetics and immunology, to stop this great crippler of young adults.

Call 1-800-624-8236 today to find out more about multiple sclerosis and how you can help.

Help Us Short Circuit Multiple Sclerosis

NATIONAL MULTIPLE SCLEROSIS SOCIETY
205 EAST 42ND STREET NEW YORK, NEW YORK 10017 TEL (212) 986-3240

UNION ELECTRIC

WILLIAM E. CORNELIUS

St. Louis, Mo. *314-621-3222*

SALES: *$2 bil.* PROFITS: *$286 mil.*

MARKET VALUE: *$2.6 bil.*

▶ Born 9/6/31, Salt Lake City, Utah; BS (business, pub. admin.), U. of Mo., 1953; MA, Wash. U. (Mo.), 1983. Career path–finance/accounting; tenure–28 years, CEO 6 years. Compensation: 1989 salary & bonus, $525,000; ownership, 17,000 shares.[8] ▶ Stage center in acid rain drama. His utility gets 70% of power from high-sulfur Illinois coal; new Clean Air Act could require costlier, cleaner fuel or scrubbers. He says such rules merely increase U. S. dependence on foreign energy suppliers. An American history buff, he has a special interest in Jefferson.

UNION PACIFIC

ANDREW L. LEWIS

Bethlehem, Pa. *215-861-3200*

SALES: *$6.5 bil.* PROFITS: *$595 mil.*

MARKET VALUE: *$7.2 bil.*

▶ Born 11/3/31, Philadelphia, Pa.; BS (econ.), Haverford, 1953; MBA (finance, marketing), Harvard, 1955. Career path–finance/accounting; tenure–4 years, CEO 3 years. Compensation: 1989 salary & bonus, $1,550,000; ownership, 41,000 shares. ▶ Former DOT Secretary, "Drew" knows what's down the track as economy slows: Less revenue for his 19-state rail network, which hauls coal, grain. He wants to cut costs with computerized dispatching, smaller crews, tighter financial controls. He farms–near recently relocated headquarters.

UNION TEXAS PETROLEUM

A. CLARK JOHNSON

Houston, Tex. *713-623-6544*

SALES: *$981 mil.* PROFITS: *$173 mil.*

MARKET VALUE: *$1.9 bil.*

▶ Born 12/7/30, Philadelphia, Pa.; BA (polit. sci.), Haverford, 1952; MBA (marketing), Wharton, 1954. Career path–production/manufacturing; tenure–22 years, CEO 5 years. Compensation: 1989 salary & bonus, $680,000; ownership, 33,000 shares. ▶ He posted a "For Sale" sign in April, when two major shareholders (Allied-Signal, KKR) thought the timing was right. Why? Business at this worldwide oil-and-gas producer is unusually good, the payoff on aggressive exploration efforts. Example: Three years in a row, he's replaced 100% of domestic production.

UNITED ARTISTS ENTERTAINMENT

STEWART D. BLAIR

Denver, Colo. *303-321-4242*

SALES: *$1.2 bil.* LOSS: *$103 mil.*

MARKET VALUE: *$1.5 bil.*

▶ Born 5/10/49, Glasgow, Scotland; MA (econ. pol. sci.), U. of Glasgow, 1971. Career path–finance/accounting; tenure–4 years, CEO 4 years. Compensation: 1989 salary & bonus, $331,000; ownership, 4,000 shares. ▶ Merger with United Cable TV created powerhouse: No. 1 movie-theater chain, No. 3 cable operator. But it also left him with $2.8 billion debt. So he's selling units, refinancing, and closing small theaters obsolete in multiplex era. Eyeing foreign cable growth. Not a tube boob, though. He's a bookworm, with taste for lit. crit.

UNISYS

JAMES A. UNRUH

Blue Bell, Pa. *215-986-4011*

SALES: *$10.1 bil.* LOSS: *$639 mil.*

MARKET VALUE: *$1.4 bil.*

▶ BORN 3/22/41, GOODRICH, N. D.; BS (BUSINESS ADMIN.), JAMESTOWN, 1963; MBA, U. OF DENVER, 1964. CAREER PATH—FINANCE/ACCOUNTING; TENURE—9 YEARS, CEO 6 MONTHS. COMPENSATION: 1989 SALARY & BONUS, $375,000; OWNERSHIP, 10,000 SHARES. ▶ GENIAL AND ENGAGING, HE'S QUITE UNLIKE RESERVED PREDECESSOR (AND CURRENT CHAIRMAN) MIKE BLUMENTHAL. BIG COST CUTS HAVE SHORED UP EARNINGS AT COMPUTER COMPANY, SALES ARE SLUGGISH. NOW REPOSITIONING TO SERVE MORE ACTIVE MARKET NICHES—ESPECIALLY "OPEN" SYSTEMS, AN AREA WITH GREAT POTENTIAL BUT AS YET NO PROFITS. NAMED NEW TOP EXECUTIVES TO RESHAPE PRODUCT DESIGN, MARKETING. FAN OF "OPEN" MANAGEMENT, TOO: KNOCKED DOWN WALL SEPARATING OFFICE FROM OTHER EXECUTIVE'S INCHES IN EMPLOYEE CAFETERIA, CONSULTS WIDELY BEFORE MAKING BIG DECISIONS.

FOOTNOTES APPEAR ON PAGE 292

UNITED BANKS OF COLORADO

N. BERNE HART

Denver, Colo. *303-861-4700*

SALES: *$636 mil.* PROFITS: *$18 mil.*

MARKET VALUE: *$295 mil.*

▶ Born 1/6/30, Denver, Colo.; AB (bus. admin., banking), Colo. Coll., 1951. Career path–operations; tenure–37 years, CEO 12 years. Compensation: 1989 salary & bonus, $329,000; ownership, 23,000 shares. ▶ Started career as a trainee and ended it by negotiating sale of bank-holding company–which will be acquired by Norwest next year. Tough, no-nonsense manager who used heavy marketing push to build deposits to all-time high, but earnings growth less impressive. Had to take $95 million real estate write-off in second quarter.

UNITED HEALTHCARE

KENNETT L. SIMMONS

Minnetonka, Minn. *612-936-1300*

SALES: *$401 mil.* PROFITS: *$14 mil.*

MARKET VALUE: *$397 mil.*

▶ Born 12/15/41, Baton Rouge, La.; BA (econ.), Rice, 1963; MA (Amer. civilization), U. of Tex., 1972. Career path–merchandising/marketing; tenure–4 years, CEO 3 years. Compensation: 1989 salary & bonus, $682,000; ownership, 93,000 shares.[8] ▶ Prudential veteran, ex-college linebacker shaped up this HMO manager. Wants to diversify–and with impressive performance, $80 million nest egg, he has resources to do it. Whirlwind reads four books a week, runs four miles a day. Just finishing PhD with thesis on HMO industry.

UNITED ILLUMINATING

GEORGE W. EDWARDS JR.

New Haven, Conn. *203-787-7200*

SALES: *$531 mil.* LOSS: *$73 mil.*

MARKET VALUE: *$387 mil.*

▶ Born 4/30/39, Memphis, Tenn.; BS (business admin.), U. of Ark., 1961. Career path–admin., public affairs; tenure–5 years, CEO 5 years. Compensation: 1989 salary & bonus, $383,000; ownership, 10,000 shares. ▶ Fore! Avid golfer back on the fairway after Seabrook nuclear fiasco. Regulators let him recover half his $1.2 billion investment over next five years, write off remainder. Plant now in operation. Also expects "significant revenues" from diversification–building New Haven hotel/medical center, heating and cooling centers for office buildings.

UNITED INVESTORS MANAGEMENT

JON W. ROTENSTREICH

Birmingham, Ala. *205-325-4200*

SALES: *$233 mil.* PROFITS: *$54 mil.*

MARKET VALUE: *$625 mil.*

▶ Born 6/7/43, Birmingham, Ala.; BS (business), U. of Ala., 1964. Career path–finance/accounting; tenure–4 years, CEO 4 years. Compensation: 1989 salary & bonus, NA[6]; ownership, 1,000 shares.[8] ▶ Fast-talking former Salomon Brothers whiz spent a brief stint as IBM's treasurer. Now, he runs this mutual fund, oil-and-gas management, and life insurance holding company from base in New York, where he's also No. 2 at parent Torchmark. He engineered run at American General. Return on average equity for 1989 topped 17%, but investors yawned.

UNITED MISSOURI BANCSHARES

RUFUS CROSBY KEMPER

Kansas City, Mo. *816-556-7000*

SALES: *$385 mil.* PROFITS: *$38 mil.*

MARKET VALUE: *$348 mil.*

▶ Born 2/22/27, Kansas City, Mo.; attended U. of Mo. Career path–finance/accounting; tenure–40 years, CEO 32 years. Compensation: 1989 salary & bonus, $493,000; ownership, 1,034,000 direct, 503,000 indirect shares.[8] ▶ A man of contradictions: Outspoken and volatile, he extols conservative investments. Student of world affairs shuns international market. Trained in lending, he's moving toward fee-based income. He's abandoned palatial office for mundane one among "the troops." With a 20% stake, second-generation CEO is largest shareholder.

UNITED TECHNOLOGIES

ROBERT F. DANIELL

Hartford, Conn. *203-728-7000*

SALES: *$19.6 bil.* PROFITS: *$702 mil.*

MARKET VALUE: *$5.9 bil.*

▶ Born 10/31/33, Milton, Mass.; AS (eng.), Boston U. Coll. of Ind. Tech., 1954. Career path–engineering/technical, merchandising/marketing; tenure–34 years, CEO 5 years. Compensation: 1989 salary & bonus, $1,280,000; ownership, 70,000 shares. ▶ His reworked Pratt & Whitney is humming. Longer term, he still wants to build nondefense lines, which account for 75% of revenues vs. 50% when he took over. Culture's changed, too: Less of a military atmosphere than under Harry Gray. What does he value highest? Ability to listen.

UNITED TELECOMMUNICATIONS

WILLIAM T. ESREY

Westwood, Kan. *913-676-3000*

SALES: *$7.5 bil.* PROFITS: *$363 mil.*

MARKET VALUE: *$5.3 bil.*

▶ Born 1/17/40, Philadelphia, Pa.; BA (econ.), Denison, 1961; MBA, Harvard, 1964. Career path–finance/accounting; tenure–11 years, CEO 5 years. Compensation: 1989 salary & bonus, $1,130,000[1]; ownership, 62,000 direct, 24,000 indirect shares.[7] ▶ Fiercely competitive golfer, skier seemed to cap brilliant turnaround at U. S. Sprint last year. But long-distance market is just as competitive as he is: Net dropped 55% in second quarter, stock nosedived. Laying off workers, paying attention to lower end of market, putting on hold plans to buy GTE's 20%.

UNITED TELEVISION

HERBERT J. SIEGEL

Beverly Hills, Calif. *213-854-0426*

SALES: *$107 mil.* PROFITS: *$63 mil.*

MARKET VALUE: *$316 mil.*

▶ Born 5/7/28, Philadelphia, Pa.; BA (journalism), Lehigh, 1950. Career path–entrepreneur; tenure–9 years, CEO 9 years. Compensation: 1989 salary & bonus, NA[2]; ownership NA.[8] ▶ Part of fallout from his tangled relationship with Time Warner CEO Steve Ross. Third–and smallest–of entities on this list that he heads. Company 50%-owned by Chris Craft spin-off BHC, operates five TV outlets. Big Time Warner preferred holdings stem from Chris Craft's pre-merger stake in Warner. Earnings from Warner deal great; from operations, so-so.

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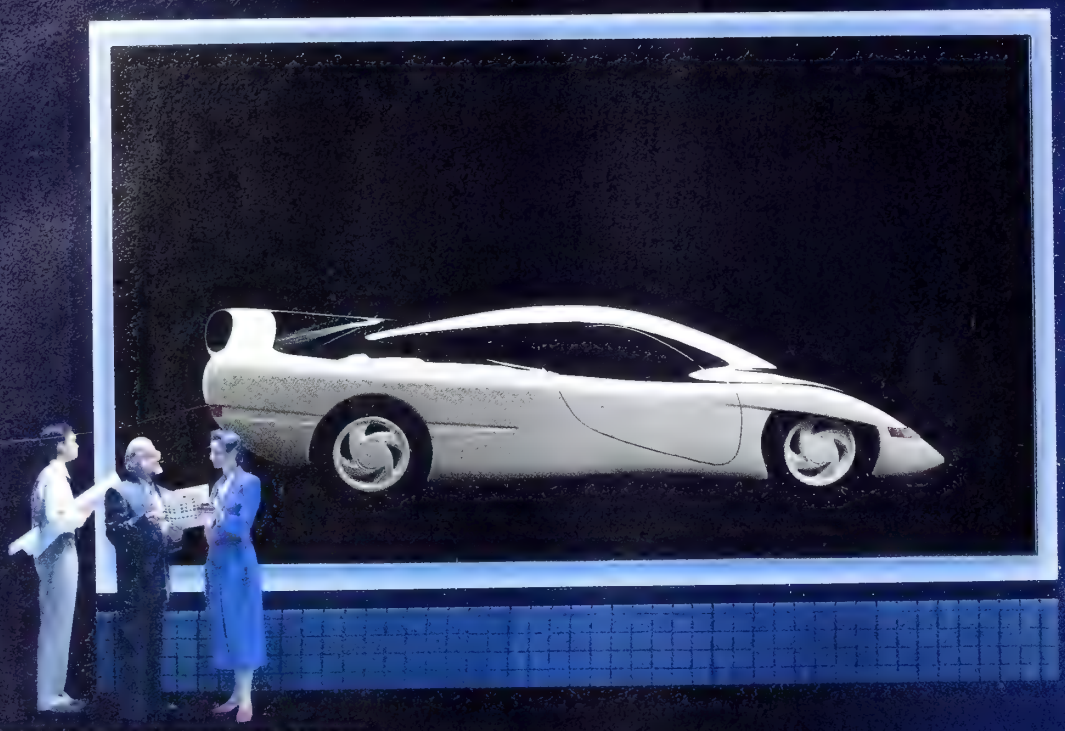

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equipment. Construction machinery. Rail
portation. Everything from vacuum cleaners
wer plants.
ncluding consumer electronics. Such as you
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television. It's super clear. And it, too, is
.ed with the technological excellence found in
every Hitachi product. No matter how big. Or small.
And that's the bottom line.

*US$44,797 million, net sales for the year ending March 31, 1990. US$1=¥158

HITACHI

UNIVERSAL

HENRY HOWZE HARRELL

Richmond, Va. *804-359-9311*

SALES: *$2.9 bil.* PROFITS: *$54 mil.*

MARKET VALUE: *$383 mil.*

▶ Born 9/18/49, Richmond, Va.; AB (business), Washington & Lee, 1961. Career path–merchandising/marketing; tenure–24 years, CEO 2 years. Compensation: 1989 salary & bonus, $446,000; ownership, 2,000 direct, 15,000 indirect shares. ▶ So-so golfer got off the tee quickly with two acquisitions: RJR's Brazilian tobacco growing and processing operations, German tobacco dealer Gebruder Kulenkamff. Now absorbing them, plotting future deals. Needs a home-buying surge to energize title-insurance business. Likes gardening, fine wines.

UNIVERSAL FOODS

GUY A. OSBORN

Milwaukee, Wis. *414-271-6755*

SALES: *$837 mil.* PROFITS: *$40 mil.*

MARKET VALUE: *$733 mil.*

▶ Born 2/18/36, Evanston, Ill.; BS (business admin.), Northwestern, 1958. Career path–merchandising/marketing; tenure–19 years, CEO 2 years. Compensation: 1989 salary & bonus, $582,000; ownership, 101,000 direct, 21,000 indirect shares. ▶ Hold the fries. Short of spud capacity to supply Hardee's, Arby's, he's expanding plants. Since repelling raid last fall, he's also put boosting profits on front burner. Cutting back commodities to emphasize higher-margined lines. Sold cheese operations. Now, new flavors acquisition expands overseas presence.

UNOCAL

RICHARD J. STEGEMEIER

Los Angeles, Calif. *213-977-7600*

SALES: *$10.1 bil.* PROFITS: *$358 mil.*

MARKET VALUE: *$7.5 bil.*

▶ Born 4/1/28, Alton, Ill.; BS (petro. eng.), U. of Mo. at Rolla, 1950; MS (petro. eng.), Tex. A&M, 1951. Career path–engin./tech., prod./mfg.; tenure–39 years, CEO 2 years. Compensation: 1989 salary & bonus, $1,065,000; ownership, 27,000 direct, 51,000 indirect shares. ▶ Selling assets, cutting operations to chop debt piled up in 1986 battle with Boone Pickens. Rising oil prices will help. Expect more shrinkage, since debt still $3 billion. Other problems, too: Halted some crude production because of Alaskan volcanic eruption. Into classical music, art.

UNUM

JAMES FINLEY ORR III

Portland, Me. *207-770-2211*

SALES: *$1.9 bil.* PROFITS: *$155 mil.*

MARKET VALUE: *$1.8 bil.*

▶ Born 3/5/43, Minneapolis, Minn.; BS (natural sci.), Villanova, 1965; MBA (finance), Boston U., 1970. Career path–finance/accounting; tenure–4 years, CEO 3 years. Compensation: 1989 salary & bonus, $965,000; ownership, 15,000 direct, 5,000 indirect shares. ▶ Boyish enthusiasm earns him "world's oldest Boy Scout" nickname. Rapidly growing group disability insurer. Problems in mortgage area, but long-term care products show potential. Bought National Employer Life, Britain's largest disability carrier. Runs with champion corporate track team.

UPJOHN

THEODORE COOPER

Kalamazoo, Mich. *616-323-4000*

SALES: *$2.9 bil.* PROFITS: *$311 mil.*

MARKET VALUE: *$6.7 bil.*

▶ Born 12/28/28, Trenton, N. J.; BS, Georgetown, 1949; MD (1954), PhD (physiology, 1956), St. Louis. Career path–medicine; admin.; tenure–10 years, CEO 3 years. Compensation: 1989 salary & bonus, $1,187,000; ownership, 141,000 direct, 4,000 indirect shares. ▶ Ex-surgeon, HEW official needs new products. Demand flat for anti-anxiety drug and sleep inducer. Rogaine (for baldness) shows growth but needs marketing push. Cutting costs, enjoying takeover protection of 25% family stake. Unassuming: Drives Chevy Blazer, loves frozen yogurt.

U. S. BANCORP

ROGER L. BREEZLEY

Portland, Ore. *503-275-6111*

SALES: *$1.7 bil.* PROFITS: *$151 mil.*

MARKET VALUE: *$1.2 bil.*

▶ Born 4/1/38, Williston, N. D.; BSBA (accounting), U. of N. D., 1960. Career path–finance/accounting; tenure–13 years, CEO 3 years. Compensation: 1989 salary & bonus, $504,000; ownership, 49,000 direct, 25,000 indirect shares. ▶ Farm boy and race-car enthusiast broadening scope of superregional Northwest bank. Dug a big toehold in northern California with $889 million deal for S&L. Thanks to region's boom, loans growing at 15%-plus per year, while credit quality improves. One worry: Impact of spotted owl on Oregon timber industry.

U. S. CELLULAR

H. DONALD NELSON

Chicago, Ill. *312-399-8900*

SALES: *$40 mil.* LOSS: *$18 mil.*

MARKET VALUE: *$459 mil.*

▶ Born 11/23/33, Chicago, Ill.; BS (business admin., 1955), MBA (finance, marketing, 1959), Northwestern. Career path–merchandising/marketing; tenure–7 years, CEO 4 years. Compensation: 1989 salary & bonus, $176,000; ownership, 12,000 shares.[7] ▶ "Did I say raise prices? Cut them!" His pricing flip-flop, a failed attempt at improving margins, is bringing out new phone customers in droves. Owns or has options to operate in areas with 11.5 million possible customers. Telephone & Data Systems, majority owner, may turn over another 2.5 million.

U. S. HEALTHCARE

LEONARD ABRAMSON

Blue Bell, Pa. *215-628-4800*

SALES: *$976 mil.* PROFITS: *$28 mil.*

MARKET VALUE: *$927 mil.*

▶ Born 11/12/32, Philadelphia, Pa.; BA, Penn State, 1954; BS (pharmacy), Phil. Coll. of Pharmacy & Science, 1960; MPA (public admin.), Nova, 1978. Career path–admin., corp. dev.; tenure–14 years, CEO 14 years. Compensation: 1989 salary & bonus, $1,046,000; ownership, 578,000 direct, 1,232,000 indirect shares. ▶ Staying healthy on price hikes, cost controls, enrollment gains at million-plus member HMO. Rails against defensive–i.e., lawsuit-preventing–medicine. Wrote book, *Healing Our Health Care System*, pledged royalties to cancer research.

FOOTNOTES APPEAR ON PAGE 292

"Ted and I fly on business about a zillion miles a year together. So I try to be careful not to 'one-up' him.

But one day we compared brokerage accounts. He pays $80. My Schwab One® is free. He got a little tense."

"Why pay $80 for a brokerage account with checking when you can go first class free?"

As we fly, Ted and I share everything from family stories to investment strategies. One day we talked about our brokerage accounts.

I could see the knots in his brow when I told him my Schwab One account is free. He pays eighty bucks a year.

We compared.

His pays daily interest. So does Schwab One.

We both earn money-market interest on checking. In fact, Schwab One doesn't even have a minimum balance requirement. It pays me interest on any balance . . . down to $1.00 and lets me write checks for any amount.

Schwab One comes with a free VISA® debit card.

I've used Schwab One VISA debit in London theaters. L.A. restaurants. Hong Kong clothiers. It deducts the amount directly from my account. Or lets me borrow against my portfolio.

He had to come up with $20,000. I opened Schwab One with only $5,000.

In a combination of cash *and* securities.

"Schwab One," I said, "It's the only way to fly." With that, Ted reached for his headset.

Compare Schwab One to similar accounts.	Annual Fee	Initial Deposit Required	24-Hour Service	Commission Discounts
Schwab ONE	**Free**	**$5,000**	**Yes**	**Yes**
Merrill Lynch Cash Mgmt Account	$80	$20,000	No	No
Dean Witter Active Assets Account	$80	$10,000	No	No
Shearson Lehman Financial Mgmt Account	$100	$10,000	No	No

Based on a survey conducted by Charles Schwab & Co., Inc. in June, 1990

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THE CORPORATE ELITE

U. S. SHOE

BANNUS B. HUDSON

Cincinnati, Ohio 513-527-7000

SALES: *$2.6 bil.* PROFITS: *$49 mil.*

MARKET VALUE: *$595 mil.*

▶ Born 8/24/45, Ft. Scott, Kan.; BS (mech. eng.), U. of Kan., 1968. Career path–merchandising/marketing; tenure–5 years, CEO 7 months. Compensation: 1989 salary & bonus, $488,000; ownership, 23,000 shares. ▶ Man of vision made his name with LensCrafters optical care business, now fallen on hard times. Wall Street let its feelings be known, knocking down stock. In addition to bringing LensCrafters back in focus, fixing shoe business, he's getting to work on erratic women's apparel unit. Former P&G man likes to travel, visiting customers.

U. S. SURGICAL

LEON C. HIRSCH

Norwalk, Conn. 203-845-1000

SALES: *$345 mil.* PROFITS: *$31 mil.*

MARKET VALUE: *$1.1 bil.*

▶ Born 7/20/27, Bronx, N. Y.; attended City Coll. of N. Y.. Career path–merchandising/marketing; tenure–26 years, CEO 26 years. Compensation: 1989 salary & bonus, $1,384,000; ownership, 3,649,000 direct, 12,000 indirect shares. ▶ Outspoken critic of animal-rights activists–who object to his labs' use of dogs–has sewn up the booming market for surgical staples. Now going after the traditional sutures business. One step: Bought German needlemaker. Hobbies include skiing, fly-fishing. Recently sold 27,000 shares to expand Wyoming ranch.

U. S. TRUST

H. MARSHALL SCHWARZ

New York, N. Y. 212-852-1000

SALES: *$398 mil.* PROFITS: *$31 mil.*

MARKET VALUE: *$294 mil.*

▶ Born 11/5/36, New York, N. Y.; BA (1958), MBA (1961), Harvard. Career path–banking; tenure–23 years, CEO 9 months. Compensation: 1989 salary & bonus, $355,000; ownership, 23,000 shares. ▶ Successor to establishment pillar Daniel Davison, 23-year veteran who retired in January. His family (of F. A. O. Schwarz toy store fame) has old New York ties. That's important since whitest of white-shoe banks is primarily asset manager for wealthy investment clients and thus avoided most bad-loan problems. Domestic. Likes cooking, gardening.

US WEST

JACK A. MACALLISTER

Englewood, Colo. 303-793-6500

SALES: *$9.7 bil.* PROFITS: *$1.1 bil.*

MARKET VALUE: *$13.6 bil.*

▶ Born 7/12/27, Humeston, Iowa; BS (commerce), Iowa State, 1950. Career path–mgmt.; tenure–40 years, CEO 7 years. Compensation: 1989 salary & bonus, $1,310,000; ownership, 313,000 shares. ▶ Packing it in at year's end, he'll have more time to hike Rockies. President Dick McCormick will take over. Except for cellular and paging, home market is sluggish, but he led first Baby Bell into Eastern Europe, and he's wiring Hong Kong for cable TV. Put together consortium that hopes to string fiber-optic cable across Soviet, linking Japan, Europe.

US WEST NEWVECTOR GROUP

JOHN E. DEFEO

Bellevue, Wash. 206-747-4900

SALES: *$190 mil.* LOSS: *$14 mil.*

MARKET VALUE: *$1.2 bil.*

▶ Born 9/26/46, Philadelphia, Pa.; BBA (marketing), Temple, 1970. Career path–engineering/technical, merchandising/marketing; tenure–7 years, CEO 4 years. Compensation: 1989 salary & bonus, $352,000; ownership, 18,000 shares. ▶ Runs booming cellular, paging outfit, 81% owned by Baby Bell US West. Cellular subscribers up 71% in past year, pagers up 32%. Expanding into rural markets, aiming to link fast-growing metro areas with service along key interstate highways. Also heads US West Spectrum, global radio communications venture.

USAIR GROUP

EDWIN I. COLODNY

Arlington, Va. 703-418-7000

SALES: *$6.3 bil.* LOSS: *$63 mil.*

MARKET VALUE: *$751 mil.*

▶ Born 6/7/26, Burlington, Vt.; AB (government), U. of Rochester, 1948; LLB, Harvard Law, 1951. Career path–merchandising/marketing, legal; tenure–33 years, CEO 15 years. Compensation: 1989 salary & bonus, $571,000; ownership, 174,000 shares. ▶ His regional carrier once considered among the best-managed. But takeovers of Piedmont, PSA came late in industry merger rush–and haven't gone as planned. Now cutting staff by nearly 4,000 as earnings, traffic, stock price decline. Another worry: Feds probing his strong position at Pittsburgh hub.

USF&G

JACK MOSELEY

Baltimore, Md. 301-547-3000

SALES: *$4.7 bil.* PROFITS: *$117 mil.*

MARKET VALUE: *$2 bil.*

▶ Born 6/21/31, Birmingham, Ala.; BS (mathematics, physics), Auburn, 1953. Career path–insurance; tenure–37 years, CEO 9 years. Compensation: 1989 salary & bonus, $1,180,000; ownership, 20,000 shares. ▶ What can you say? Property-casualty insurance now in its third down-cycle year, and he's trying to hold up profits and boost the dividend. Claims from hurricane Hugo and other disasters haven't helped. So he's reaching for more–and riskier–life insurance business. He gets from it all to shoot birds in Europe, Wyoming.

USLIFE

GORDON EUGENE CROSBY JR.

New York, N. Y. 212-709-6000

SALES: *$1.2 bil.* PROFITS: *$80 mil.*

MARKET VALUE: *$529 mil.*

▶ Born 11/14/20, Remsen, Iowa; attended U. of Mo. Career path–merchandising/marketing; tenure–31 years, CEO 24 years. Compensation: 1989 salary & bonus, $959,000[1]; ownership, 120,000 direct, 9,000 indirect shares. ▶ Nothing happens at this insurer without his say-so. Spends a lot of time on hands-on management–time some say could be better spent on the big picture. What's that picture? Life insurance is a crowded market, and the big are increasingly gobbling up the small or weak. There's noise that he's a target, but so far, it's just noise.

THE CORPORATE ELITE

UST

LOUIS F. BANTLE

Greenwich, Conn. *203-661-1100*

SALES: *$670 mil.* PROFITS: *$190 mil.*

MARKET VALUE: *$3.3 bil.*

▶ Born 11/22/28, Bridgeport, Conn.; BS (business admin.), Syracuse, 1951. Career path–merchandising/marketing; tenure–28 years, CEO 5 years. Compensation: 1989 salary & bonus, $2,126,000; ownership, 1,036,000 direct, 83,000 indirect shares. ▶ Though smoking's déclassé, demand for tobacco that he-men pack in their cheeks isn't dipping. Copenhagen, Skoal big contributors to company's sparkling 41% ROE. Wine sales also climbing. Busier since his No. 2 left last December. Active locally in alcoholism council, museum of art, science, and industry.

USX

CHARLES A. CORRY

Pittsburgh, Pa. *412-433-1121*

SALES: *$17.5 bil.* PROFITS: *$965 mil.*

MARKET VALUE: *$8.2 bil.*

▶ Born 2/14/32, Cincinnati, Ohio; BA (prelaw), U. of Cincinnati, 1955; JD, U. of Cincinnati Law, 1959. Career path–finance/accounting; tenure–31 years, CEO 1 year. Compensation: 1989 salary & bonus, $1,347,000; ownership, 8,000 shares. ▶ New man at Big Steel showed mettle early by winning bruising proxy battle against Carl Icahn's plan to split company's steel, energy arms. So now what's he doing? Just what Icahn wanted–peddling the steel unit. Stock price still lags, and Icahn hasn't gone away. Another proxy fight could be forthcoming.

UTILICORP UNITED

RICHARD C. GREEN JR.

Kansas City, Mo. *816-421-6600*

SALES: *$732 mil.* PROFITS: *$48 mil.*

MARKET VALUE: *$427 mil.*

▶ Born 5/6/54, Kansas City, Mo.; BS (finance, accounting), SMU, 1976. Career path–finance/accounting; tenure–23 years, CEO 5 years. Compensation: 1989 salary & bonus, $347,000; ownership, 91,000 direct, 810,000 indirect shares. ▶ Fourth-generation head of what was once known as Missouri Public Service, he's anything but complacent. Using debt to finance a series of friendly acquisitions, he gradually added winter-peaking companies to MoPub's summer-peaking base. Also aims to balance revenue from gas and electricity.

VALERO ENERGY

WILLIAM EUGENE GREEHEY

San Antonio, Tex. *512-246-2000*

SALES: *$941 mil.* PROFITS: *$42 mil.*

MARKET VALUE: *$606 mil.*

▶ Born 6/9/36, Fort Dodge, Iowa; BBA, St. Mary's, 1960. Career path–finance/accounting; tenure–27 years, CEO 7 years. Compensation: 1989 salary & bonus, $603,000; ownership, 188,000 direct, 29,000 indirect shares. ▶ Innovative, not afraid of a little leverage. Placing greater emphasis on term contracts and improving margins. Bolstered by new profits–even as oil prices are rising–he's upgrading Corpus Christi refinery. Breaks ground this fall on 105-mile extension of intrastate pipeline network. Active in United Way, Boy Scouts.

VALHI

HAROLD CLARK SIMMONS

Dallas, Tex. *214-386-4110*

SALES: *$2.3 bil.* PROFITS: *$102 mil.*

MARKET VALUE: *$1.3 bil.*

▶ Born 5/13/31, Alba, Tex.; BBA (1951), MA (econ., 1952), U. of Tex. Career path–entrepreneur, investing; tenure–8 years, CEO 8 years. Compensation: 1989 salary & bonus, $795,000; ownership, 77,000 indirect shares.[8] ▶ Grass grows under feet of takeover artist and tennis buff, who angered parched Santa Barbara neighbors by shipping in water for his lawn. Merger of holding company set with 66% owned NL Industries. Should strengthen balance sheet as he vows to pursue a bigger stake in Lockheed. NL's recent bid for Lockheed failed.

VALSPAR

C. ANGUS WURTELE

Minneapolis, Minn. *612-332-7371*

SALES: *$527 mil.* PROFITS: *$23 mil.*

MARKET VALUE: *$345 mil.*

▶ Born 8/25/34, Minneapolis, Minn.; BA (business), Yale, 1956; MBA, Stanford, 1961. Career path–production/manufacturing; tenure–28 years, CEO 20 years. Compensation: 1989 salary & bonus, $508,000; ownership, 966,000 direct, 346,000 indirect shares. ▶ No need to touch up his record. Superb strategist transformed family company into industry profitability leader with regular bargain-priced acquisitions. Now at work on latest purchase, DeSoto's industrial coatings. Enjoys poker, culture. A director of prestigious Walker Art Center.

VANGUARD CELLULAR SYSTEMS

HAYNES GLENN GRIFFIN

Greensboro, N. C. *919-282-3690*

SALES: *$47 mil.* LOSS: *$6 mil.*

MARKET VALUE: *$350 mil.*

▶ Born 3/3/47, Charlotte, N. C.; BA (econ.), Princeton, 1969. Career path–founder; tenure–7 years, CEO 6 years. Compensation: 1989 salary & bonus, $296,000; ownership, 945,000 direct, 10,000 indirect shares. ▶ Aims to serve markets he calls "metroclusters" just outside major cities such as Boston, New York, Philadelphia. Even though hottest cellular growth is in cities–and he isn't there–he has still doubled his customer base to nearly 50,000 in last three years. He likes downhill skiing, partly because the whole family can go along.

VARIAN ASSOCIATES

J. TRACY O'ROURKE

Palo Alto, Calif. *415-493-4000*

SALES: *$1.3 bil.* PROFITS: *$32 mil.*

MARKET VALUE: *$604 mil.*

▶ Born 3/14/35, Columbia, S. C.; BS (mech. eng.), Auburn, 1956. Career path–marketing, technical; tenure–8 months, CEO 8 months. Compensation: 1989 salary & bonus, NA[6]; ownership, 1,000 shares. ▶ Turnaround artist recruited by board after success at Allen-Bradley. He's already cut staff by 20%, chipping away at laid-back, academic culture. Wants over-diversified electronics manufacturer to focus on markets where it can use its deep-science expertise profitably. Little time to maintain his 13 handicap or visit Colorado condo.

FOOTNOTES APPEAR ON PAGE 292

VERIFONE

HATIM A. TYABJI

Redwood City, Calif. *415-591-6500*

SALES: *$123 mil.* PROFITS: *$10 mil.*

MARKET VALUE: *$332 mil.*

▶ Born 3/12/45, Bombay, India; BS (elect. eng.), Coll. of Engineering, 1967; MS, St. U. of N. Y. at Buffalo, 1969; MBA, Syracuse, 1975. Career path–engineering/technical; tenure–4 years, CEO 4 years. Compensation: 1989 salary & bonus, $496,000; ownership, 150,000 shares. ▶ No big spender. Does without secretaries, perks. Makes high-tech black boxes retailers use to O. K. credit-card payments. Battling class action charging SEC disclosure violations. Stock has taken a real nosedive, and slow sales in new markets hurt third-quarter profits.

VF

LAWRENCE R. PUGH

Wyomissing, Pa. *215-378-1151*

SALES: *$2.5 bil.* PROFITS: *$176 mil.*

MARKET VALUE: *$1.1 bil.*

▶ Born 1/22/33, White Plains, N. Y.; BA (business), Colby, 1956. Career path–merchandising/marketing; tenure–11 years, CEO 9 years. Compensation: 1989 salary & bonus, $1,085,000; ownership, 30,000 direct, 1,000 indirect shares. ▶ Soft earnings year for this soft-goods maker as market droops for jeans, Jantzen menswear proves disappointing. Looking for growth abroad, he's expanding in Europe, both East and West, where jeans are still in fashion. Chairman of American Apparel Manufacturers Assn. deeply involved in industry matters.

VIACOM

FRANK J. BIONDI JR.

New York, N. Y. *212-258-6000*

SALES: *$1.4 bil.* PROFITS: *$131 mil.*

MARKET VALUE: *$2 bil.*

▶ Born 1/9/45, New York, N. Y.; BA (psychology, econ.), Princeton, 1966; MBA, Harvard, 1968. Career path–merchandising/marketing, finance/accounting; tenure–3 years, CEO 3 years. Compensation: 1989 salary & bonus, $1,388,000; ownership, NA.[8] ▶ Ex-HBO chief runs company for Sumner Redstone, who owns 84%. Operates cable channels (MTV, Nickelodeon, Showtime, VH-1), syndication (sales of *Cosby, Different World* totaled $1 billion since 1988). Just split stock, authorized new share class to be used for acquisitions.

VISTA CHEMICAL

JOHN D. BURNS

Houston, Tex. *713-588-3000*

SALES: *$779 mil.* PROFITS: *$120 mil.*

MARKET VALUE: *$302 mil.*

▶ Born 5/18/33, Houston, Tex.; BA (1955), BS (chem. eng., 1956), Rice. Career path–production/manufacturing; tenure–35 years, CEO 6 years. Compensation: 1989 salary & bonus, $820,000; ownership, 146,000 direct, 4,000 indirect shares. ▶ Goal is paying down debt, which rose $320 million to fund stock buyback. And he should be able to do it: Sales of surfactants and specialty chemicals are strong, though PVC's flagging. And cash flow will jump as big capital programs end next year. But big ethylene capacity hike comes on line as prices sag.

VONS

ROGER E. STANGELAND

Arcadia, Calif. *818-821-7000*

SALES: *$5.2 bil.* LOSS: *$25 mil.*

MARKET VALUE: *$756 mil.*

▶ Born 10/4/29, Chicago, Ill.; BS (liberal arts), U. of Ill., 1951. Career path–merchandising/marketing; tenure–30 years, CEO 5 years. Compensation: 1989 salary & bonus, $641,000; ownership, 1,109,000 shares. ▶ Creative boss who's always open to new ideas. Acquisitions brought supermarket chain to around 330 outlets, and he's still looking for more. Debt's still quite high from earlier LBO, but operating results are starting to look up. Active in the community, he has served on boards of education in Minnesota and Illinois.

VULCAN MATERIALS

HERBERT ANTHONY SKLENAR

Birmingham, Ala. *205-877-3000*

SALES: *$1.1 bil.* PROFITS: *$133 mil.*

MARKET VALUE: *$1.5 bil.*

▶ Born 6/7/31, Omaha, Neb.; BS (business), U. of Neb. at Omaha, 1952; MBA, Harvard, 1954. Career path–finance/accounting; tenure–18 years, CEO 4 years. Compensation: 1989 salary & bonus, $709,000; ownership, 86,000 shares. ▶ Real estate woes will make profit growth difficult at this construction-materials giant. Former college basketball player thinks the nation's crumbling infrastructure may hold future growth for him. Finally completed acquisition of Reed Crushed Stone after snags in due diligence held up the deal for a year.

WAL-MART STORES

DAVID D. GLASS

Bentonville, Ark. *501-273-4000*

SALES: *$25.8 bil.* PROFITS: *$1.1 bil.*

MARKET VALUE: *$32.3 bil.*

▶ Born 9/2/35, New Liberty, Mo.; BS (business, accounting), Southwest Mo. State, 1959. Career path–merchandising/marketing, finance/accounting; tenure–14 years, CEO 14 years. Compensation: 1989 salary & bonus, $630,000; ownership, 1,444,000 direct, 161,000 indirect shares. ▶ Ailing founder Sam Walton wants sales quintupled to $125 billion by 2000–and his successor might do it. Moving into California, pressing on with SuperCenters, big food-nonfood combos. But admits that even bigger hypermarts didn't work out, won't build more.

WALGREEN

CHARLES R. WALGREEN III

Deerfield, Ill. *312-940-2500*

SALES: *$5.4 bil.* PROFITS: *$154 mil.*

MARKET VALUE: *$2.8 bil.*

▶ Born 11/11/35, Chicago, Ill.; BS (pharmacy), U. of Mich., 1958. Career path–merchandising/marketing, operations; tenure–38 years, CEO 19 years. Compensation: 1989 salary & bonus, $862,000[4]; ownership, 314,000 direct, 127,000 indirect shares. ▶ "Cork," founder's grandson, has uncorked growth spree. Opened 100 drugstores last year, plans 100 more this year. High-tech advances in stores plus high-margin prescription business has kept same-store sales climbing, too. For fun, he heads down to the Key Largo Anglers Club for deep-sea fishing.

THE CORPORATE ELITE

WANG LABORATORIES

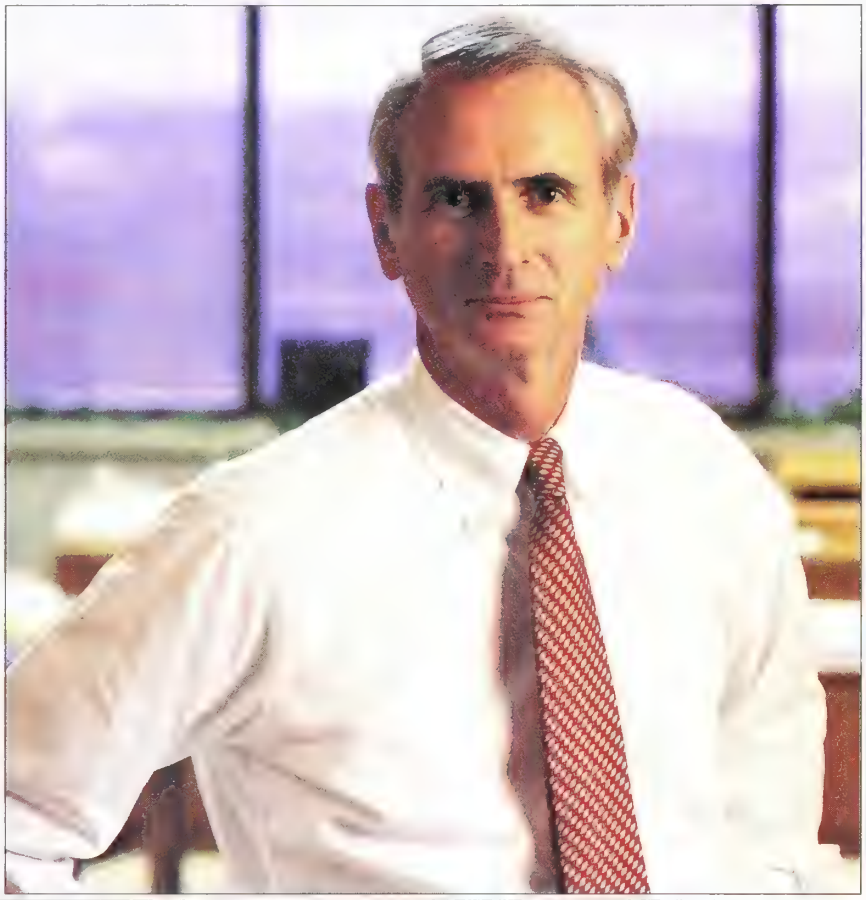
RICHARD W. MILLER

Lowell, Mass. *508-459-5000*

SALES: *$2.5 bil.* LOSS: *$629 mil.*

MARKET VALUE: *$617 mil.*

▶ BORN 11/22/40, BUFFALO, N. Y.; BBA, CASE WESTERN RESERVE, 1967; MBA, HARVARD, 1970. CAREER PATH—FINANCE/ACCOUNTING, EXECUTIVE MGMT.; TENURE—1 YEAR, CEO 7 MONTHS. COMPENSATION: 1989 SALARY & BONUS, $876,000; OWNERSHIP, 10,000 SHARES. "RICK" IS A FINANCIAL WHIZ. JOINED TROUBLED COMPUTER COMPANY FROM GE CONSUMER ELECTRONICS, STEPPING IN AFTER FOUNDER AN WANG DIED. UNDER WANG'S SON FRED, COMPANY BORROWED TO FUEL FIZZLED SALES PUSH. NEW MAN CHOPPED JOBS, SOLD PHONE SWITCH, FINANCIAL, LEASING SUBSIDIARIES TO PRUNE BANK DEBT. RELIEVED SOME PRESSURE, BUT MINICOMPUTER SALES STILL HURTING. BIG CLEVELAND BROWNS, INDIANS FAN. SUMMER GETAWAY ON MARTHA'S VINEYARD DECORATED WITH MEMENTO OF RCA DAYS: STAINED GLASS REPLICA OF "NIPPER" THAT ONCE ADORNED 30 ROCK'S CORPORATE DINING ROOM.



WALLACE COMPUTER SERVICES

THEODORE DIMITRIOU

Hillside, Ill. *312-626-2000*

SALES: *$429 mil.* PROFITS: *$37 mil.*

MARKET VALUE: *$408 mil.*

▶ Born 8/31/26, Dayton, Ohio; AB (math, econ.), Miami U. (Ohio), 1950. Career path–engineering/technical, production/manufacturing; tenure–31 years, CEO 16 years. Compensation: 1989 salary & bonus, $537,000; ownership, 270,000 shares. ▶ Trying something new. After years of moving into related markets, e.g., office products, computer services, he's into health care. Setting up a new sales force, developing software to link doctors and hospitals. Last year, capped 28 consecutive earnings and sales gains. Self-taught organist still pumping away.

WARNER-LAMBERT

JOSEPH D. WILLIAMS

Morris Plains, N. J. *201-540-2000*

SALES: *$4.2 bil.* PROFITS: *$413 mil.*

MARKET VALUE: *$8.4 bil.*

▶ Born 8/15/26, Washington, Pa.; BS (pharmacy), U. of Neb., 1950. Career path–merchandising/marketing; tenure–40 years, CEO 6 years. Compensation: 1989 salary & bonus, $1,505,000; ownership, 103,000 direct, 20,000 indirect shares. ▶ Pharmacist's son spends free time tinkering with old cars, including Rolls-Royce Silver Shadow. With a year to retirement, trying to put R&D into gear to restock product pipeline: Cardiovascular blockbuster Lopid goes off patent in 1993. Holding his breath on Cognex, drug to combat Alzheimer's.

WASHINGTON ENERGY

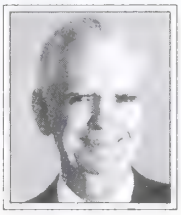
JAMES A. THORPE

Seattle, Wash. *206-622-6767*

SALES: *$366 mil.* PROFITS: *$24 mil.*

MARKET VALUE: *$296 mil.*

▶ Born 4/19/29, Fall River, Mass.; BS (chem. eng.), Northeastern, 1951. Career path–engineering/technical; tenure–23 years, CEO 16 years. Compensation: 1989 salary & bonus, $326,000; ownership, 126,000 direct, 89,000 indirect shares.[7] ▶ His gas utility serves robust, fast-growing Seattle area. Big untapped market; many homeowners now heat with electricity and could lower bills by converting to gas. Heavily involved with local organizations, charities, he's also avid golfer who collects golf balls from courses around the country.



WASHINGTON GAS LIGHT

DONALD J. HEIM

Washington, D. C. *703-750-4440*

SALES: *$756 mil.* PROFITS: *$47 mil.*

MARKET VALUE: *$557 mil.*

▶ Born 12/10/27, Philadelphia, Pa.; BME, U. of Va., 1950. Career path–corp. planning/opers.; tenure–40 years, CEO 9 years. Compensation: 1989 salary & bonus, $412,000; ownership, 20,000 direct, 3,000 indirect shares. ▶ Holding his own despite slowdown in real estate. Encouraging special relationships with home-builders to promote natural gas. Also, converting oil and coal users–including Pentagon and Capitol Hill–and expanding service area. Clean-air legislation ought to help. Pet project: natural-gas vehicles. Avid golfer.

PHOTOGRAPH BRIAN SMITH

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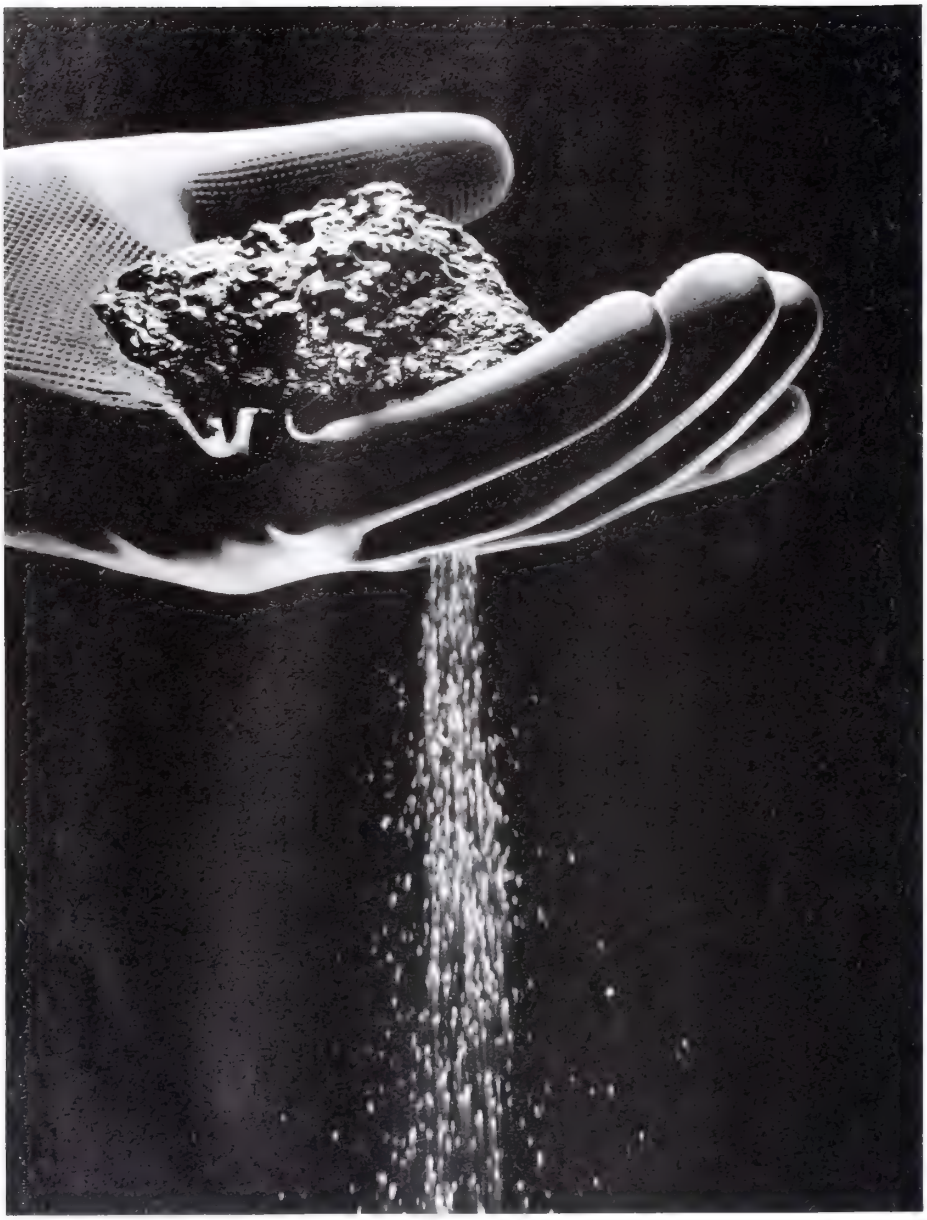

Opportunity in our hands. BP scientists have developed a new process which recycles oily refinery waste. Instead of hazardous, hard-to-handle by-products, our recycling technology now produces an easy-to-handle powder. What's more, the new BP process recovers oil which would have been lost. That's waste turned into a resource. And a big disposal problem disposed of.

200 Public Sq., Cleveland, OH 44114

THE CORPORATE ELITE

WASHINGTON POST

KATHARINE GRAHAM

Washington, D. C. *202-334-6600*

SALES: *$1.4 bil.* PROFITS: *$198 mil.*

MARKET VALUE: *$2.9 bil.*

▶ Born 6/16/17, New York, N. Y.; AB (history), U. of Chicago, 1938. Career path–administration; tenure–27 years, CEO 17 years. Compensation: 1989 salary & bonus, $740,000; ownership, 1,000 direct, 519,000 indirect shares. ▶ To offset deepening ad slump, she wants better cost controls, new revenue sources. Investing in printing equipment and zoned editions at the *Washington Post*, which dominates its market. Managing Editor Leonard Downie is pushing to expand local and foreign coverage. Son Don plays larger management role.

WASHINGTON WATER POWER

PAUL ANTHONY REDMOND

Spokane, Wash. *509-489-0500*

SALES: *$590 mil.* PROFITS: *$72 mil.*

MARKET VALUE: *$641 mil.*

▶ Born 1/23/37, Lakeview, Ore.; BS (biology), BS (elect. eng.), Gonzaga, 1965. Career path–engineering/technical; tenure–25 years, CEO 6 years. Compensation: 1989 salary & bonus, $329,000[1]; ownership, 2,000 direct, 3,000 indirect shares. ▶ Runs "Inland Northwest's" major utility. Known for low rates because of hydropower, proximity to Alberta natural gas. His service area, once plagued by slow growth, now doing better–so head can no longer export as much power. Spokane community leader, economic development spark plug.

WASTE MANAGEMENT

DEAN L. BUNTROCK

Oak Brook, Ill. *708-572-8800*

SALES: *$4.5 bil.* PROFITS: *$562 mil.*

MARKET VALUE: *$17.8 bil.*

▶ Born 6/6/31, Columbia, S. D.; BS, St. Olaf, 1955. Career path–founder; tenure–22 years, CEO 22 years. Compensation: 1989 salary & bonus, $1,357,000; ownership, 3,092,000 direct, 278,000 indirect shares. ▶ A king of the heap in the domestic garbage business, he's moving successfully overseas. And to burnish his public image with environmentalists, needs plaudits generated by his new Recycle America subsidiary, which serves 2 million households, biggest in the nation. Has recycling deals with Du Pont, Stone Container. Off hours, a big-game hunter.

WATTS INDUSTRIES

TIMOTHY P. HORNE

North Andover, Mass. *508-688-1811*

SALES: *$292 mil.* PROFITS: *$28 mil.*

MARKET VALUE: *$485 mil.*

▶ Born 4/4/38, Winchester, Mass.; BA (language), Trinity, 1959. Career path–operations; tenure–31 years, CEO 12 years. Compensation: 1989 salary & bonus, $575,000; ownership, 1,428,000 direct, 5,647,000 indirect shares.[7] ▶ Swimming and tennis enthusiast leads the active life at work, too. Near-constant acquisitions keep water and steam valve manufacturer growing. Last year, he logged 176,000 frequent-flier miles. Latest deal: Circle Seal, former Brunswick valve business. After making European buy in '88, looks in Japan, Australia.

WEINGARTEN REALTY

STANFORD J. ALEXANDER

Houston, Tex. *713-866-6000*

SALES: *$68 mil.* PROFITS: *$14 mil.*

MARKET VALUE: *$410 mil.*

▶ Born 8/15/28, Houston, Tex.; BS (business), U. of Tex., 1949; MBA, Harvard, 1952. Career path–merchandising/marketing; tenure–35 years, CEO 28 years. Compensation: 1989 salary & bonus, $483,000; ownership, 885,000 direct, 744,000 indirect shares. ▶ For exercise, he walks on a treadmill. At work, he walks a tightrope–his REIT invests in Sun Belt real estate–but never slips. Focus is shopping centers. Acquisitions must meet stringent criteria: Strong anchor must lease half the space, center must generate positive return from day one.

WEIS MARKETS

SIGFRIED WEIS

Sunbury, Pa. *717-286-4571*

SALES: *$1.2 bil.* PROFITS: *$86 mil.*

MARKET VALUE: *$1.3 bil.*

▶ Born 2/18/16, Selinsgrove, Pa.; BA (history, econ.), Yale, 1938. Career path–operations; tenure–51 years, CEO 30 years. Compensation: 1989 salary & bonus, $420,000; ownership, 5,885,000 direct, 412,000 indirect shares. ▶ Dad and uncle founded the supermarket chain, but he made it big. Now has 119 stores, with nine more in the works, plus 1,500 private label brands bearing his name. Nonunion chain keeps prices low. Lately he's been opening superstores–nearly all with pharmacies–but you won't find much debt in his shopping cart.

WELLMAN

THOMAS MICHAEL DUFF

Shrewsbury, N. J. *201-542-7300*

SALES: *$438 mil.* PROFITS: *$54 mil.*

MARKET VALUE: *$588 mil.*

▶ Born 7/30/47, Hoboken, N. J.; BA (psychol- Rutgers, 1970. Career path–admin., mgmt.; tenure–19 CEO 5 years. Compensation: 1989 salary & bonus, $4 90; ownership, 384,000 shares. ▶ Had a banner '89 at big re- cyc stics and synthetic fiber, but competitors are making inro ls to lock up new sources of raw materials and open mor hannels to keep growing. Fiber Industries acquisition, fo 4 million, is a start–but lays on lots of debt. Spends rare free time boating, fishing. Active in children's school.

WELLS FARGO

CARL E. REICHARDT

San Francisco, Calif. *415-477-1000*

SALES: *$5.6 bil.* PROFITS: *$601 mil.*

MARKET VALUE: *$2.8 bil.*

▶ Born 7/6/31, Houston, Tex.; AB (econ.), USC, 1956. Career path–finance/accounting; tenure–20 years, CEO 8 years. Compensation: 1989 salary & bonus, $1,523,000; ownership, 134,000 shares. ▶ Go ahead, call him a penny-pincher. He loves it. Stays lean, chalks up gains despite industry woes. Will California economy slow? He thinks not, but Wall Street doesn't like his real estate exposure and drubs his stock. Battling revived BankAmerica for retail customers. Big move into Southern California with deal for troubled Great American thrift.

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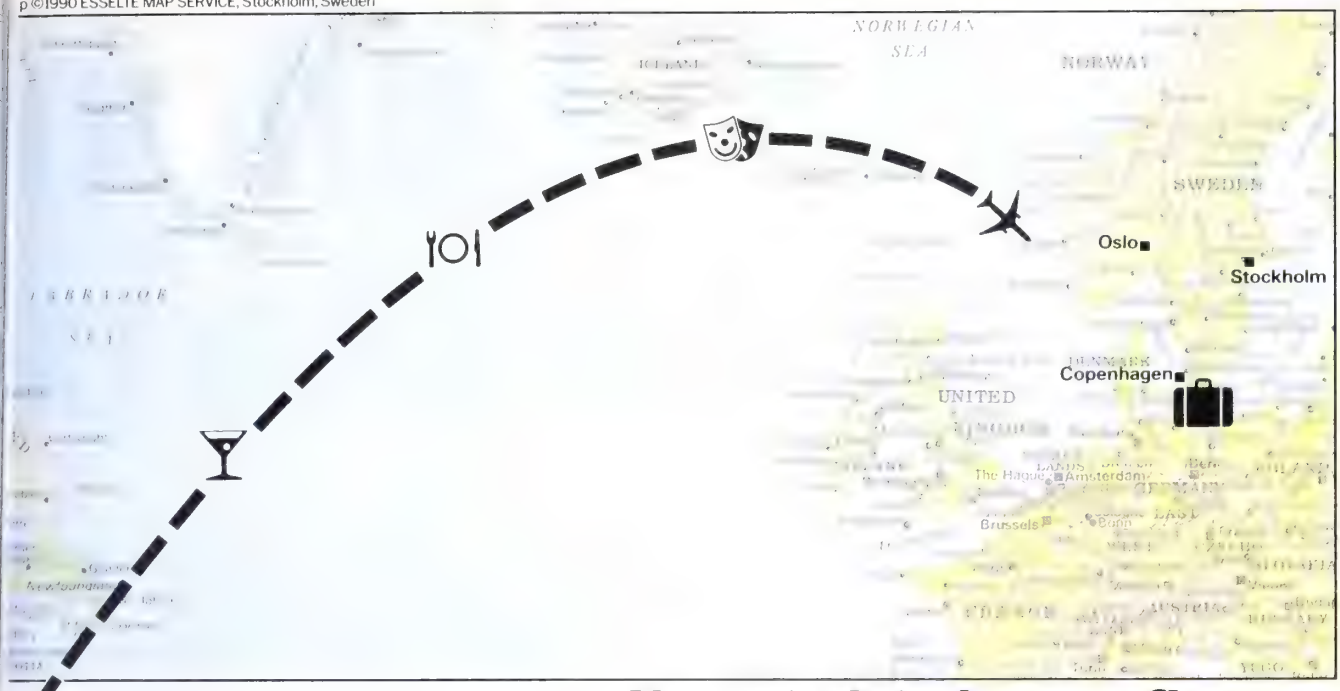

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$200 billion they want to ru

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WENDY'S INTERNATIONAL

JAMES WHITNEY NEAR

Dublin, Ohio *614-764-3300*

SALES: *$1.1 bil.* PROFITS: *$24 mil.*

MARKET VALUE: *$568 mil.*

▶ Born 3/19/38, Columbus, Ohio; BS (business, psychology), Hanover, 1960. Career path–food opers. & mgmt.; tenure–16 years, CEO 2 years. Compensation: 1989 salary & bonus, $628,000; ownership, 525,000 direct, 32,000 indirect shares. ▶ Ex-burger flipper hopes beef is back on the bottom line. Cost-cutting campaign means coupons are out, staffing high only during peak hours. Results so far: a 60% jump in second-quarter earnings despite a drop in sales. Ad campaign featuring company founder R. David Thomas seems to be a success as well.

WESCO FINANCIAL

CHARLES T. MUNGER

Pasadena, Calif. *818-449-2345*

SALES: *$168 mil.* PROFITS: *$30 mil.*

MARKET VALUE: *$365 mil.*

▶ Born 1/1/24, Omaha, Neb.; attended U. of Mich., Calif. Inst. of Tech.; JD, Harvard Law, 1948. Career path–legal; tenure–7 years, CEO 7 years. Compensation: 1989 salary & bonus, NA[2]; ownership, NA.[8] ▶ Runs this holding company for Warren Buffett's Berkshire Hathaway, which has 80% stake. Has prodigious memory–and unlikely to forget 1988 purchase of New American Electric, whose earnings promptly fell. Mutual Savings, Precision Steel also troubled. But reinsurance unit, with new business from Berkshire, helps out.

WEST POINT-PEPPERELL

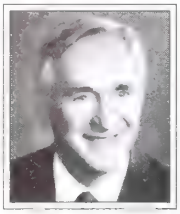
WILLIAM FARLEY

Chicago, Ill. *312-876-1724*

SALES: *$962 mil.* PROFITS: *$12 mil.*

MARKET VALUE: *$930 mil.*

▶ Born 10/10/42, Pawtucket, R. I.; AB (liberal arts), Bowdoin, 1964; JD, Boston Coll. Law, 1969. Career path–marketing, finance/accounting; tenure–2 years, CEO 2 years. Compensation: 1989 salary & bonus, NA[6]; ownership, 28,100,000 indirect shares.[7] ▶ The last step turned out to be a doozy. Can't close this deal, because he can't find money to buy the last 5% of stock. So he can't use cash flow to pay down debt. Trying to get bondholders to swap debt for equity. Had to unload Cluett Peabody unit at fire-sale price. He may yet lose control.



WESTINGHOUSE ELECTRIC

PAUL E. LEGO

Pittsburgh, Pa. *412-244-2000*

SALES: *$12.8 bil.* PROFITS: *$922 mil.*

MARKET VALUE: *$9.6 bil.*

▶ Born 5/16/30, Johnstown, Pa.; BS (1956), MS (elec. eng., 1958), U. of Pittsburgh. Career path–engineering/technical; tenure–34 years, CEO 5 months. Compensation: 1989 salary & bonus, $1,404,000; ownership, 73,000 shares. ▶ Helped predecessor revitalize company in the mid-'80s; now, he's in charge. Plans to keep profits growing at double-digit pace by nurturing energy cogeneration and waste clean-up businesses. May need to reduce electronics business' dependence on defense sales. At home, he likes to play with computers.

WESTVACO

JOHN A. LUKE

New York, N. Y. *212-688-5000*

SALES: *$2.3 bil.* PROFITS: *$223 mil.*

MARKET VALUE: *$1.7 bil.*

▶ Born 11/30/25, Tyrone, Pa.; BS (business admin.), Yale, 1948. Career path–production/manufacturing, senior mgmt.; tenure–41 years, CEO 2 years. Compensation: 1989 salary & bonus, $942,000; ownership, 146,000 direct, 301,000 indirect shares. ▶ Upbeat manager runs family's forest-products company. Profits sink as industry turns downward, but solid financial shape should limit the damage. Debt to capital is conservative 34%. Brother David was his predecessor. Continues push for new products, modernization. Flying enthusiast.

WETTERAU

TED C. WETTERAU

Hazelwood, Mo. *314-524-5000*

SALES: *$5.3 bil.* PROFITS: *$46 mil.*

MARKET VALUE: *$617 mil.*

▶ Born 11/13/27, St. Louis, Mo.; BA, Westminster, 1952. Career path–administration, operations; tenure–38 years, CEO 20 years. Compensation: 1989 salary & bonus, $896,000; ownership, 492,000 direct, 623,000 indirect shares. ▶ Founder's grandson has an eye for deals. Coaxed wholesaler-retailer's shareholders to authorize new class of convertible preferred for acquisitions. Latest, a New Jersey grocery chain, brings total to 130 drug, clothing, grocery, department stores. Ex-ministerial student wants his two sons to take over one day.

WEYERHAEUSER

GEORGE H. WEYERHAEUSER

Tacoma, Wash. *206-924-2345*

SALES: *$10.1 bil.* PROFITS: *$341 mil.*

MARKET VALUE: *$4.2 bil.*

▶ Born 7/8/26, Seattle, Wash.; BS (indust. admin.), Yale, 1949. Career path–administration, operations; tenure–43 years, CEO 24 years. Compensation: 1989 salary & bonus, $930,000; ownership, 90,000 direct, 360,000 indirect shares. ▶ Timber titan slated to retire next July already has handed over day-to-day chores to COO Jack Creighton. Spending final months on policy matters, i.e., ensuring that Congress doesn't restrict export of privately owned logs to Japan. Classmate of George Bush drives own car to work, carries own bags at the airport.

WHEELABRATOR TECHNOLOGIES

PAUL MICHAEL MONTRONE

Hampton, N. H. *603-929-3000*

SALES: *$1.5 bil.* PROFITS: *$58 mil.*

MARKET VALUE: *$1.6 bil.*

▶ Born 5/8/41, Scranton, Pa.; BS (accounting), U. of Scranton, 1962; PhD (finance, econ.), Columbia, 1965. Career path–finance/accounting; tenure–20 years, CEO 3 years. Compensation: 1989 salary & bonus, $310,000; ownership, 200,000 direct, 18,000 indirect shares. ▶ Two years ago, his Henley spin-off linked its garbage-to-energy operations with those of Waste Management. Now, Waste Management is spending $700 million for 55% of his company. The lure: trash-burning plants–and the boss himself, a bravura manager who loves both opera and bocce.

FOOTNOTES APPEAR ON PAGE 292

WHIRLPOOL

DAVID R. WHITWAM

Benton Harbor, Mich. *616-926-5000*

SALES: *$6.3 bil.* PROFITS: *$187 mil.*

MARKET VALUE: *$1.6 bil.*

▶ Born 1/30/42, Madison, Wis.; BS (econ.), U. of Wis., 1967. Career path–merchandising/marketing; tenure–22 years, CEO 3 years. Compensation: 1989 salary & bonus, $1,030,000; ownership, 11,000 direct, 11,000 indirect shares.[7] ▶ Agitated by money-losing Brazilian operations, he still wants to broaden company's international stake. Launching dual-marketing campaign with Phillips. "World washing machine" to debut soon. Also into vacuum cleaners in U. S. via joint venture with Matsushita–which just sucked up big order from Sears.

WHITMAN

JAMES W. COZAD

Chicago, Ill. *312-565-3000*

SALES: *$4 bil.* PROFITS: *$228 mil.*

MARKET VALUE: *$2.2 bil.*

▶ Born 2/10/27, Huntington, Ind.; BS (accounting, econ.), Ind., 1950. Career path–marketing; tenure–10 months, CEO 10 months. Compensation: 1989 salary & bonus, NA[6]; ownership, 1,000 shares.[8] ▶ Left post as Amoco's CFO to take over this conglomerate. Big in packaged food, it's the nation's largest Pepsi bottler, too. Also owns Midas muffler, Hussman food equipment. He helped Amoco buy Dome Petroleum and spin off Cyprus Minerals, so he knows how to do big deals. Early priority: Reduce 65% debt-to-total-capital ratio.

WILLAMETTE INDUSTRIES

WILLIAM SWINDELLS

Portland, Ore. *503-227-5581*

SALES: *$1.9 bil.* PROFITS: *$191 mil.*

MARKET VALUE: *$1.1 bil.*

▶ Born 9/16/30, Oakland, Calif.; BS (ind. eng.), Stanford, 1953. Career path–production/manufacturing; tenure–37 years, CEO 11 years. Compensation: 1989 salary & bonus, $516,000; ownership, 438,000 direct, 1,007,000 indirect shares. ▶ Mild-mannered executive rarely passes up a fishing expedition. Perenially profitable forest-products company known for low overhead, efficiency. Strong cash flow helps him modernize plants and still leaves room for acquisition. Among worries: overcapacity in paper, squeeze on public timber in Northwest.

WILLIAMS

JOSEPH HILL WILLIAMS

Tulsa, Okla. *918-588-2000*

SALES: *$1.7 bil.* PROFITS: *$53 mil.*

MARKET VALUE: *$1.1 bil.*

▶ Born 6/2/33, Tulsa, Okla.; BA (history, econ.), Yale, 1956. Career path–operations; tenure–31 years, CEO 12 years. Compensation: 1989 salary & bonus, $876,000; ownership, 129,000 shares. ▶ Avid outdoorsman hunts, fishes, shoots wildlife photographs. Telecommunications unit shines, with operating profits more than tripling last year. Pipeline businesses generally look good despite warmer weather, delayed rate increase, regulatory changes. Now moving into cogeneration projects, software for pipeliners. He's plugged into state politics.

WILMINGTON TRUST

BERNARD J. TAYLOR II

Wilmington, Del. *302-651-1000*

SALES: *$379 mil.* PROFITS: *$59 mil.*

MARKET VALUE: *$586 mil.*

▶ Born 11/10/25, Philadelphia, Pa.; BS (econ.), Wharton, 1949. Career path–finance/accounting; tenure–11 years, CEO 11 years. Compensation: 1989 salary & bonus, $710,000; ownership, 60,000 shares.[7] ▶ He's finally forming a holding company–now that the Federal Reserve has loosened its rules and will let him keep his brokerage business and travel agency. Then he'll hit the acquisition trail, shopping first in neighboring Pennsylvania and Maryland. He enjoys singing in the bank's glee club. Away from the office, he's a scuba diver.

WINN-DIXIE STORES

A. DANO DAVIS

Jacksonville, Fla. *904-783-5000*

SALES: *$9.2 bil.* PROFITS: *$135 mil.*

MARKET VALUE: *$2.7 bil.*

▶ Born 6/2/45, New Rochelle, N. Y.; attended Stetson. Career path–merchandising/marketing; tenure–22 years, CEO 8 years. Compensation: 1989 salary & bonus, $526,000; ownership, 8,000 direct, 11,610,000 indirect shares. ▶ He's taking more aggressive tack at this grocery chain, with "everyday low price" strategy in most divisions. Eliminates special promotions–and attendant ad costs–in favor of keeping regular prices down. Working so far, but fight is fierce in Florida. And while he's remodeling, many stores are still old, small.

WISCONSIN ENERGY

CHARLES S. MCNEER

Milwaukee, Wis. *414-221-2345*

SALES: *$1.5 bil.* PROFITS: *$200 mil.*

MARKET VALUE: *$1.9 bil.*

▶ Born 4/8/26, Gilbert, W. Va.; BS (elect. eng.), Northwestern, 1950. Career path–engineering/technical; tenure–40 years, CEO 15 years. Compensation: 1989 salary & bonus, $624,000; ownership, 21,000 shares. ▶ He pushed redevelopment of downtown, and now has some refurbishing of his own to do. Pressed by environmentalists, he'll renovate four power units, build two more. Sharp eye for costs let him reduce rates nine times since 1984. Now, he's filed for an increase. Persuaded Navy to move big research lab into his WisPark corporate park.

WISCONSIN PUBLIC SERVICE

LINUS MATTHEW STOLL

Green Bay, Wis. *414-433-1598*

SALES: *$586 mil.* PROFITS: *$49 mil.*

MARKET VALUE: *$486 mil.*

▶ Born 1/30/26, La Crosse, Wis.; BS (chem. eng.), U. of Wis., 1947. Career path–engineering/technical; tenure–44 years, CEO 3 years. Compensation: 1989 salary & bonus, $270,000; ownership, 1,000 direct, 5,000 indirect shares. ▶ Faster-than-expected growth of utility's Wisconsin markets made him hike five-year building budget by $117 million, to $550 million. He'll need lots of financing. But Moody's lowered his credit rating, so this education advocate may need to do some lecturing. State might also make him put costly scrubbers on coal plants.

FOOTNOTES APPEAR ON PAGE 292

WITCO

WILLIAM R. TOLLER

New York, N. Y. *212-605-3800*

SALES: *$1.6 bil.* PROFITS: *$35 mil.*

MARKET VALUE: *$607 mil.*

▶ Born 8/10/30, Fort Smith, Ark.; BS (econ.), U. of Ark., 1956. Career path–finance/accounting; tenure–6 years, became CEO Oct. 1. Compensation: 1989 salary & bonus, $213,000; ownership, 3,000 shares. ▶ First boss from outside the family, financial whiz taking over from dynamo predecessor Bill Wishnick the task of restoring specialty chemical company to torrid growth pace of late 1980s. Fast-rising costs led to big drop in '89 net, on record sales. May push through bolder acquisitions than company is used to, though style is low-key.

WOOLWORTH (F. W.)

HAROLD E. SELLS

New York, N. Y. *212-553-2000*

SALES: *$8.8 bil.* PROFITS: *$329 mil.*

MARKET VALUE: *$3.3 bil.*

▶ Born 7/15/28, Ozark, Ark. Career path–merchandising/marketing; tenure–45 years, CEO 4 years. Compensation: 1989 salary & bonus, $1,380,000; ownership, 218,000 shares. ▶ Top-grade manager expanding fast–especially overseas. He'll soon be back in East Germany, where company had 30 "25 und 50 pfennig" stores before the war. But specialty outlets (Kinney Shoe, Foot Locker) ring up his best profits. Gradually, he wants to deemphasize discount selling and move toward operations that follow fashion trends. Strong balance sheet.

WORTHINGTON INDUSTRIES

JOHN H. MCCONNELL

Columbus, Ohio *614-438-3210*

SALES: *$916 mil.* PROFITS: *$55 mil.*

MARKET VALUE: *$812 mil.*

▶ Born 5/10/23, New Manchester, W. Va.; BA (business), Mich. State, 1949. Career path–marketing, prod./mfg.; tenure–35 years, CEO 17 years. Compensation: 1989 salary & bonus, $526,000; ownership, 1,779,000 direct, 3,975,000 indirect shares. ▶ Manufactures steel, plastics products for industrial customers. Posted record profits seven years in a row–but not in fiscal 1990, when sales, earnings slipped slightly. Hurt by startup costs of plastics lines. Bought interest in steel mill sold by Ford. Now, strategist, long-term planner.

WPL HOLDINGS

ERROLL B. DAVIS JR.

Madison, Wis. *608-252-3311*

SALES: *$605 mil.* PROFITS: *$55 mil.*

MARKET VALUE: *$567 mil.*

▶ Born 8/5/44, Pittsburgh, Pa.; BS (elect. eng.), Carnegie-Mellon, 1965; MBA (finance), U. of Chicago, 1967. Career path–finance/accounting; tenure–12 years, CEO 3 months. Compensation: 1989 salary & bonus, $225,000; ownership, 2,000 direct, 3,000 indirect shares. ▶ Brought up from Wisconsin Power operating company to take charge at holding company after 22-year reign of predecessor. Core utility has its woes, so he has big plans to diversify into environmental consulting, communications, alternative energy, real estate. Tennis player.

WRIGLEY (WM.) JR.

WILLIAM WRIGLEY

Chicago, Ill. *312-644-2121*

SALES: *$993 mil.* PROFITS: *$106 mil.*

MARKET VALUE: *$1.8 bil.*

▶ Born 1/21/33, Chicago, Ill.; BA, Yale, 1954. Career path–administration; tenure–34 years, CEO 30 years. Compensation: 1989 salary & bonus, $679,000; ownership, 433,000 direct, 5,164,000 indirect shares. ▶ Founder's grandson keeps the snap in sales, profits with nifty marketing campaigns. New one targets smokers in no-smoke offices. Continues to roll out new flavors, products in U. S., overseas. Amurol unit, known for kids' gums such as Hubba Bubba, adding candy for adults through acquisition. Offers subsidy to employees who ride public transport.

XEROX

PAUL ARTHUR ALLAIRE

Stamford, Conn. *203-968-3000*

SALES: *$16.8 bil.* PROFITS: *$704 mil.*

MARKET VALUE: *$3.8 bil.*

▶ Born 7/21/38, Worcester, Mass.; BS (elect. eng.), Worcester Polytechnic Inst., 1960; MS (ind. admin.), Carnegie-Mellon, 1966. Career path–finance/accounting; tenure–24 years, CEO 2 months. Compensation: 1989 salary & bonus, $916,000; ownership, 10,000 shares. ▶ Horseback rider takes reins of company that needs spurring. Copier division's been cleaned up, but financial side's in trouble. Problem loans at VMS Realty produced $400 million writeoff, insurance hurting. His growth hope is image processing, with first new product this fall.

YELLOW FREIGHT SYSTEM

GEORGE E. POWELL III

Overland Park, Kan. *913-345-3000*

SALES: *$2.2 bil.* PROFITS: *$19 mil.*

MARKET VALUE: *$694 mil.*

▶ Born 10/18/48, Kansas City, Mo.; BS (business admin.), Ind., 1970. Career path–operations, mgmt.; tenure–20 years, CEO 3 months. Compensation: 1989 salary & bonus, $451,000; ownership, 292,000 direct, 1,703,000 indirect shares. ▶ Dad helped build this carrier and steered it smoothly through the turmoil of deregulation. Truck line handles less-than-truckload freight with a nationwide network of hub terminals. But profits were down last year, and his challenge is to reverse the decline. A Kansas City aristocrat with an ear for music.

ZURN INDUSTRIES

GEORGE H. SCHOFIELD

Erie, Pa. *814-452-2111*

SALES: *$605 mil.* PROFITS: *$28 mil.*

MARKET VALUE: *$485 mil.*

▶ Born 11/18/29, Newark, N. J.; BS (ind. mgmt.), U. of Vt., 1951. Career path–finance/accounting; tenure–6 years, CEO 5 years. Compensation: 1989 salary & bonus, $535,000; ownership, 40,000 shares. ▶ Workaholic, though he sometimes escapes to Maine retreat. Wrapping up a dramatic five-year makeover of conglomerate. Now gets about 40% of revenues from waste-to-energy operations, 42% from water control businesses. Rest comes from grab bag, including Lynx golf equipment. Banking on waste-to-energy for future growth.

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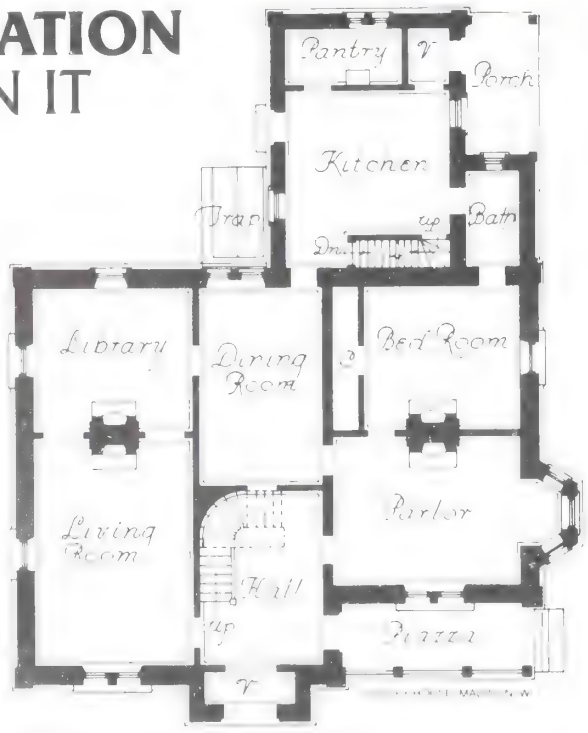

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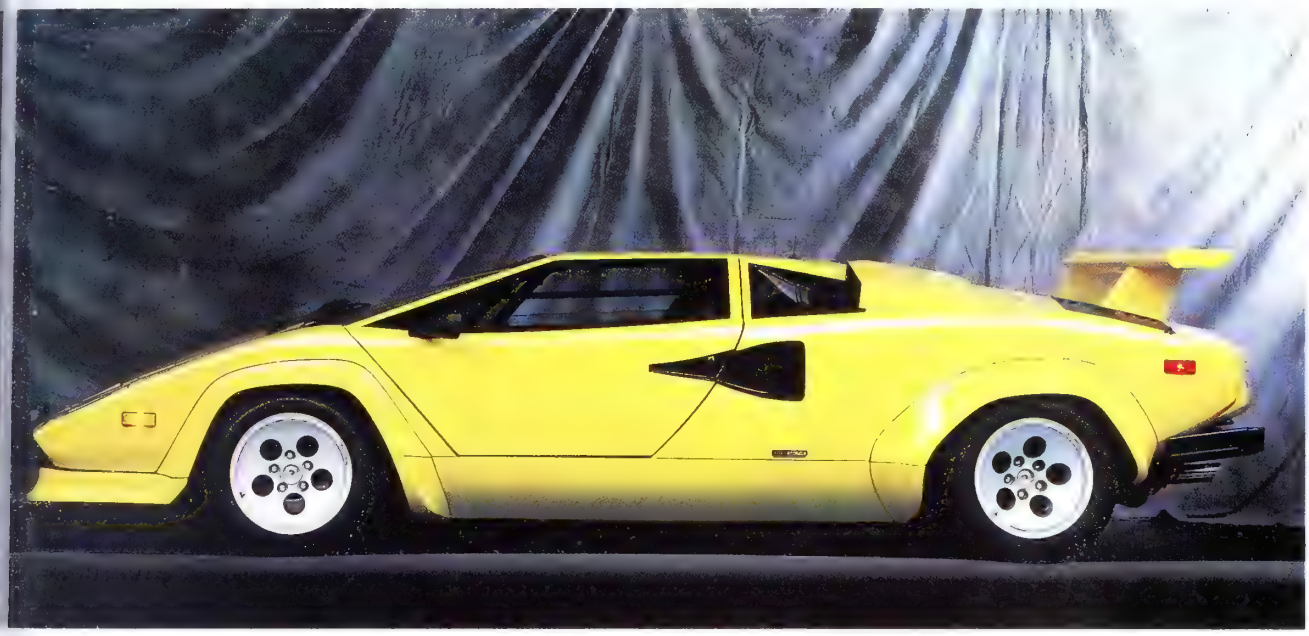

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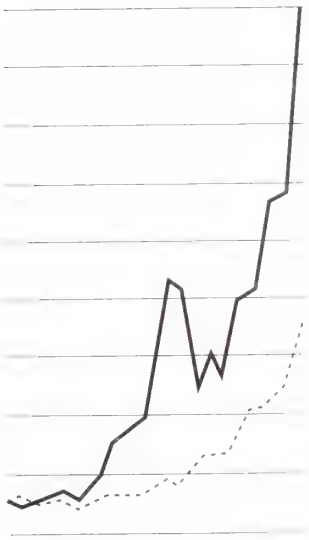

— Total return on Cooper Industries common stock adjusted for stock splits, with dividends reinvested.

--- Total return on the Standard & Poor's 500 Composite Index, with dividends reinvested.

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HOW TO READ THE CEO PROFILES

The chief executives whose profiles appear in this special issue were selected on the basis of the market values of their companies as of Aug. 31, 1990. The companies included in this issue are substantially the same as those ranked in the 1990 BUSINESS WEEK Top 1000 Special Issue (April 13). New companies have been added to the list to replace those no longer publicly traded because they were merged or reorganized.

The information that appears in each CEO profile was compiled from a variety of sources. Most of the biographical material was supplied directly by each executive or by a designated official in his company in response to a BUSINESS WEEK questionnaire. Standard & Poor's Compustat Services, Inc. supplied all the data on sales, profits, and market value. Compensation figures were taken directly from the most recent available proxy statements or from direct company sources. Unless otherwise noted, CDA Investment Technologies, a research and information service, provided stock ownership data on direct and indirect holdings.

SALES AND PROFITS. The numbers in the BUSINESS WEEK Corporate Elite reflect the most recent fiscal year for which complete data are available. For most companies, they exclude other income and excise taxes, as well as the financial results of unconsolidated subsidiaries. Profits are defined as aftertax earnings from continuing operations—before extraordinary items. For companies in financial industries (banks, insurance, etc.), revenues may include investment income; for insurance companies, net income is defined as net aftertax operating income.

MARKET VALUE. This calculation is based on share prices as of stock-market close, Aug. 31, 1990, and the latest available number of shares outstanding.

COMPENSATION. The amount shown is salary and short-term bonus as reported to the Securities & Exchange Commission. Long-term compensation is excluded unless noted.

TENURE. When the exact month and year of company or CEO tenure is available, years of tenure are rounded upward if months of service are seven or more.

SHARE OWNERSHIP. In most cases, both direct and indirect shares include only interest in the class of stock from which the company's market value is calculated. In addition to the published holdings, executives may have substantial holdings in other classes of more closely held company stock. Unless indicated, all holdings are direct. Indirect holdings have been included only if the holding is substantial either in absolute number of shares or in relation to direct holdings.

NOTES TO THE CEO PROFILES. [1]Includes or may include some long-term compensation. [2]Compensation is received from related or other company. [3]Salary excludes compensation from related or other company. [4]Includes long-term bonus or other benefits. [5]Partial-year data. [6]NA. CEO not listed in compensation table. [7]Share data from questionnaire or other company source; may include beneficial interests. [8]Share data from most recent proxy statement; may include beneficial interests. [9]May include shares of more than one class. [10]May include shares held by related company or partnership. [11]Excludes bonus or other benefits. [12]Estimated data. NA=not applicable or not available.

We Took A Great Idea,

And Made It Fly.

msonite's Ultravalet™ rment Bag is like a closet d chest of drawers in one. nd you can carry it on a ne and live right out of it a hotel room.

ith 12 inside pockets, the ltravalet has a place for erything and keeps every- ing in its place.

nother nice thing about the ckets is the mesh material at lets you see everything u've packed. You can also get to major pockets from the side or outside.

here's even a special pocket r ties that helps keep them rinkle-free.

nlike most other bags, the ltravalet opens like a book so ou don't have to keep flipping he bag over to pack or unpack.

hanks to a lot of organized hinking, the Ultravalet is the asiest bag to pack and unpack hat we've ever made.

ee the Ultravalet at a uggage store soon. And you'll ee why it's an idea that's eally taking off.

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With its special hooks, you can hang the open bag in a closet or on a door and live right out of it.

You'll also appreciate our unique telescoping bar that pulls out to let you remove suits and dresses without disturbing the ones hanging in front.*

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The bag holds all kinds of hangers so you can pack anything right from the closet.

The Ultravalet folds over backwards, instead of forwards like other bags, to help keep lapels, sleeves and pockets looking great.*

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Last but not least, our extended length panel helps keep longer garments from wrinkling at the bottom.*

*Patent Pending

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Our first business was forms; and today, over 100 years later, we are by far the world leader. Designing, printing, storing and distributing all the forms and products that make a business run for the small, medium and large business markets.

But if you know us only as a forms company, you don't really know Moore. Employing the latest in computerized technology, we are also in the business of information management.

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BusinessWeek

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AUTO QUALITY

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Just as Detroit is catching up, the very concept of quality is changing. It's not just fewer defects anymore.

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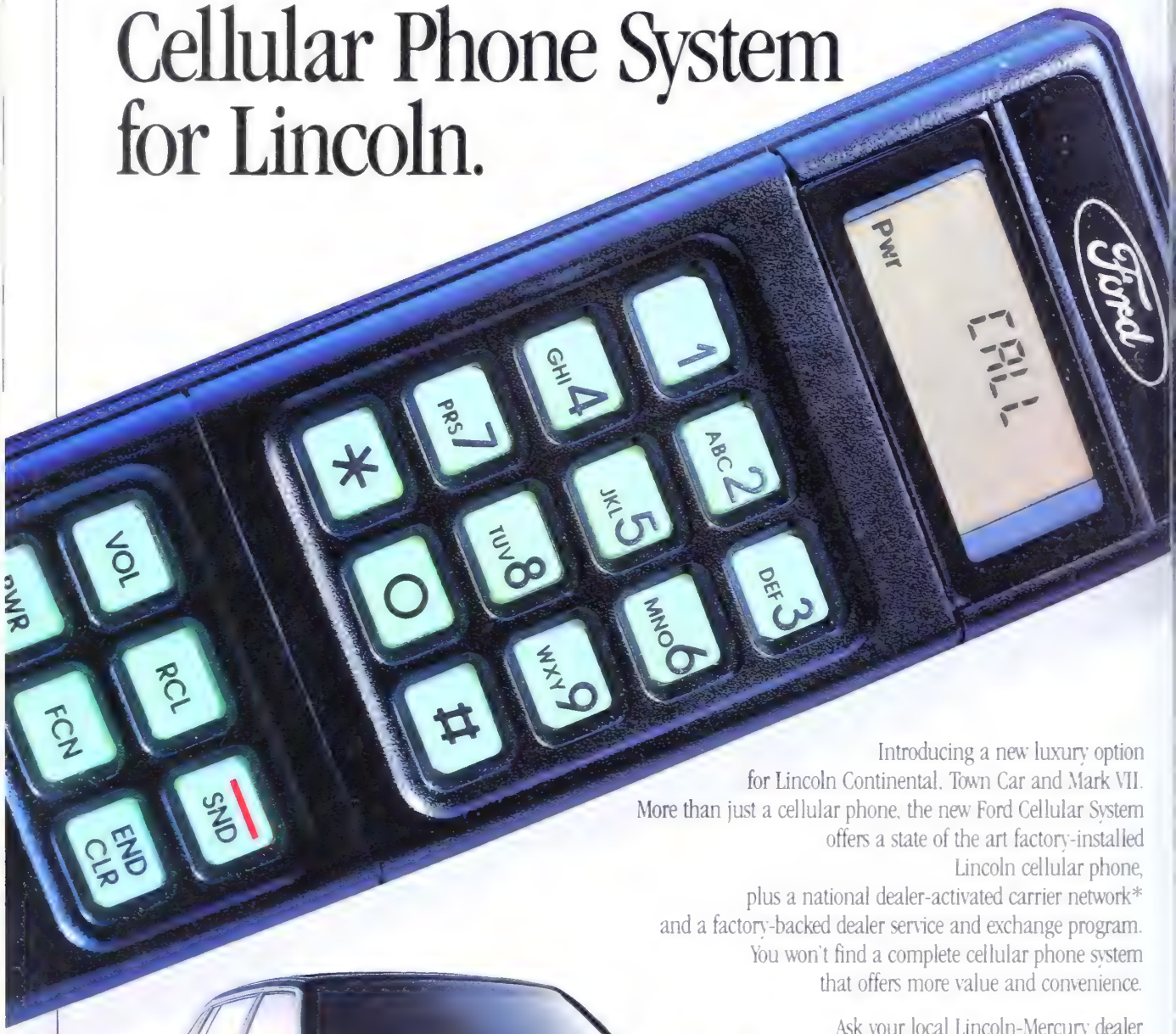
It's not just another car phone. It's the new Cellular Phone System for Lincoln.



Introducing a new luxury option for Lincoln Continental, Town Car and Mark VII. More than just a cellular phone, the new Ford Cellular System offers a state of the art factory-installed Lincoln cellular phone, plus a national dealer-activated carrier network* and a factory-backed dealer service and exchange program. You won't find a complete cellular phone system that offers more value and convenience.

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Ford
Cellular System

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ıe natural talent, the capacity, the pability are already there, hidden neath the surface. Virtually everyone ıs far more potential for achievement an they ever use or even recognize. ıe Dale Carnegie Course® helps them ok within themselves to dis- ver more of those hidden re- urces. And once they begin to e the reality of their emendous potential ıd realize the extent their capacity for complishment, once ey begin to recognize e exciting possibilities within eir reach, then they begin a w, dramatic phase in their es. Their self- nfidence increases, eir self-image is ightened, their horizons oaden. They feel a new nse of vitality and anticiation in their lives.

Participants feel ıe excitement of this ansition. They become ore poised, more alert, ore self-reliant. Their ıthusiasm soars and ıey feel more vital, ıore energetic. Their ersonalities become ighter, livelier, more interesting. And ıeir overall effectiveness in their ork, in their lives increases as they cus on being at their best in everyıing they do.

The Dale Carnegie Course® helps them develop new, personal communications skills that increase their ability to express themselves in clear, concise, persuasive language. They become better at getting along with other people, at winning their support and cooperation because they learn to understand people more fully, what it is that motivates and inspires them.

Their ability to control tension and stress is increased, which enables them to better cope with the challenges, the pressures of daily life. Their mental outlook becomes more positive as they develop a greater belief in themselves, in their own capabilities, in the reality of their own potential achievements.

The result is amazing...a positive difference, a whole new perspective in their lives.

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CEO Gibbons fires up Burger King—but major obstacles remain

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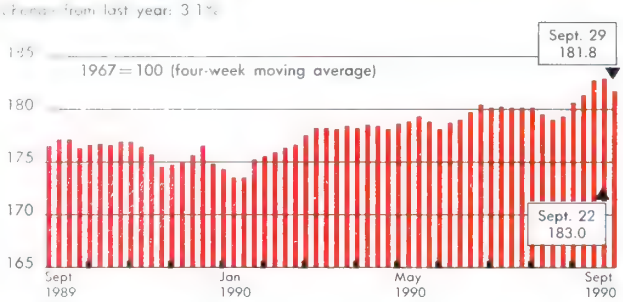
ss Week (ISSN 0007-7135) published weekly, except for one issue in January, by McGraw-Hill Inc. U. S. subscriber rate $39.95 per year. In Canada, one year: CDN $54.95. Single $2.00. Executive, Editorial, Circulation, and Advertising Offices: 1221 Avenue of the Americas, New York, N. Y. 10020. Second-class postage paid at New York, N. Y., and at additional mailing Postage paid at Montreal, P. Q. Registration Number 9010. Title Reg. in U. S. Patent Office. **Postmaster:** Send address changes to BUSINESS WEEK. P. O. Box 430, Hightstown, N. J. 08520

BusinessWeek Index

PRODUCTION

Change from last week: –0.7%
Change from last year: 3.1%

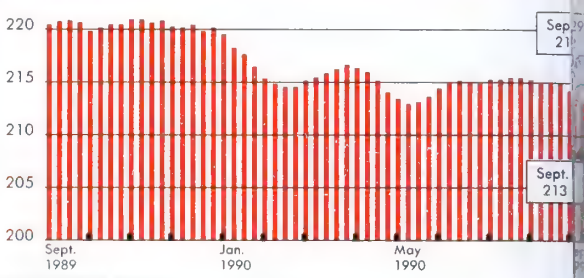


The production index fell back in the week ended Sept. 29. After seasonal adjustment, auto and truck production posted steep declines. Output of electric power, coal, and lumber fell moderately, as did crude-oil refining and rail-freight traffic. Steel production and paper output were unchanged. Before calculation of the four-week average, the index fell sharply to 179.3, from 181.2. For September, the index rose to 181.8, up from 180.3 in August.

BW production index copyright 1990 by McGraw-Hill Inc.

LEADING

Change from last week: 0.0%
Change from last year: –3.4%



The leading index was unchanged from the previous week. Lower stock p higher bond yields, more business failures, and slower growth in real estate l offset the faster pace of materials prices and a pickup in the M2 money su Before calculation of the four-week average, the index declined to 212.6, 213.7 in the week before. For the month of September, the index fell to 2 down from 214.5 in August.

Leading index copyright 1990 by Center for International Business Cycle Research

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
STEEL (10/6) thous. of net tons	1,932	1,878#	5.2
AUTOS (10/6) units	147,457	135,275r#	11.1
TRUCKS (10/6) units	78,860	79,997r#	26.7
ELECTRIC POWER (10/6) millions of kilowatt-hours	53,282	53,028#	5.2
CRUDE-OIL REFINING (10/6) thous. of bbl./day	13,487	13,962#	–0.6
COAL (9/29) thous. of net tons	20,878#	21,517	2.7
PAPERBOARD (9/29) thous. of tons	781.1#	760.7r	13.0
PAPER (9/29) thous. of tons	759.0#	760.0r	2.3
LUMBER (9/29) millions of ft.	489.6#	495.9	–8.8
RAIL FREIGHT (9/29) billions of ton-miles	21.3#	21.3	7.0

Sources: American Iron & Steel Inst., *Ward's Automotive Reports*, Edison Electric Inst., American Petroleum Inst., Energy Dept., American Paper Inst., WWPA[1], SFPA[2], Association of American Railroads.

FOREIGN EXCHANGE

	Latest week	Week ago	Year ago
JAPANESE YEN (10/10)	130	137	144
GERMAN MARK (10/10)	1.53	1.55	1.90
BRITISH POUND (10/10)	1.97	1.89	1.56
FRENCH FRANC (10/10)	5.11	5.19	6.45
CANADIAN DOLLAR (10/10)	1.15	1.15	1.18
SWISS FRANC (10/10)	1.28	1.28	1.67
MEXICAN PESO (10/10)[3]	2,895	2,895	2,584

Sources: Major New York banks. Currencies expressed in units per U. S. dollar, except for British pound expressed in dollars.

PRICES

	Latest week	Week ago	% Change year ago
GOLD (10/10) $/troy oz	391.800	389.400	8.5
STEEL SCRAP (10/9) # 1 heavy, $/ton	110.50	110.50	6.3
FOODSTUFFS (10/5) index, 1967 = 100	217.0	213.9	2.5
COPPER (10/6) ¢/lb.	131.7	131.7	–3.9
ALUMINUM (10/6) ¢/lb.	85.3	88.5	6.2
WHEAT (10/6) # 2 hard, $/bu.	2.86	2.85	–32.9
COTTON (10/6) strict low middling 1-1/16 in., ¢/lb.	69.18	69.79	–1.1

Sources: London Wed. final setting, Chicago mkt., Commodity Research Bureau, *Metals Week*, Kansas City mkt., Memphis mkt.

LEADING INDICATORS

	Latest week	Week ago	%
STOCK PRICES (10/5) S&P 500	311.15	304.83	
CORPORATE BOND YIELD, Aaa (10/5)	9.54%	9.63%	
INDUSTRIAL MATERIALS PRICES (10/5)	108.0	108.3	
BUSINESS FAILURES (9/28)	311	296	
REAL ESTATE LOANS (9/26) billions	$381.2	$381.1	
MONEY SUPPLY, M2 (9/24) billions	$3,324.2	$3,319.8r	
INITIAL CLAIMS, UNEMPLOYMENT (9/22) thous.	390	403	

Sources: Standard & Poor's, Moody's, *Journal of Commerce* (index: 1980 = 100), Bradstreet (failures of large companies), Federal Reserve Board, Labor Dept. CIBCR ally adjusts data on business failures and real estate loans.

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	%
BUSINESS WEEK PRODUCTION INDEX (Sept.)	181.8	180.3r	
BUSINESS WEEK LEADING INDEX (Sept.)	213.2	214.5r	
EMPLOYMENT, CIVILIAN, MILLIONS, (Sept.)	117.9	117.7	
UNEMPLOYMENT RATE, CIVILIAN (Sept.)	5.7%	5.6%	

Sources: BW, CIBCR, BLS

MONETARY INDICATORS

	Latest week	Week ago	%
MONEY SUPPLY, M1 (9/24)	$821.7	$820.6r	
BANKS' BUSINESS LOANS (9/26)	317.2	318.4r	
FREE RESERVES (10/3)	735	71r	
NONFINANCIAL COMMERCIAL PAPER (9/26)	154.3	155.1	

Sources: Federal Reserve Board (in billions, except for free reserves, which are expres a two-week period in millions).

MONEY MARKET RATES

	Latest week	Week ago	
FEDERAL FUNDS (10/9)	8.21%	8.32%	8
PRIME (10/10)	10.00	10.00	10
COMMERCIAL PAPER 3-MONTH (10/9)	8.01	7.95	8
CERTIFICATES OF DEPOSIT 3-MONTH (10/10)	8.14	8.03	8
EURODOLLAR 3-MONTH (10/3)	8.04	8.28	9

Sources: Federal Reserve Board, First Boston

# Raw data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equip
1 = Western Wood Products Assn. 2 = Southern Forest Products Assn. 3 = Free market value NA = Not available r = revised NM = Not meaningful

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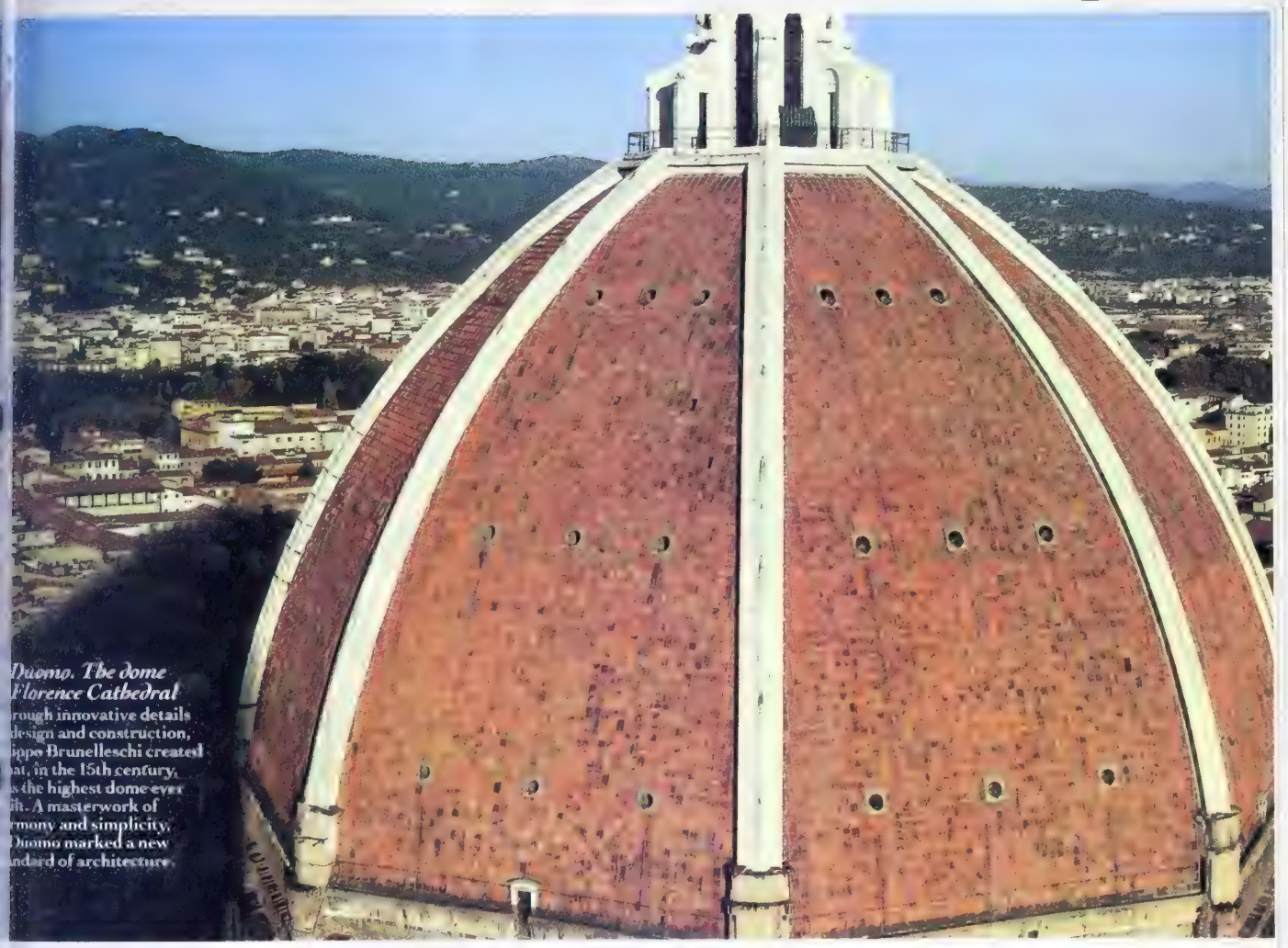

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Readers Report

TRUST—NOT ANTITRUST—IS NEEDED TO TAKE ON JAPAN

I find it ironic how far removed our country is from the Japanese *keiretsu* approach, especially the telecommunications industry ("Mighty Mitsubishi is on the move," Cover Story, Sept. 24). Regulations, restrictions, and laws permeate our business as never before, stifling innovation and investment. Judges, regulators, and lawmakers establish arbitrary barriers for our leading telecommunications companies, while allowing foreign firms free access to this nation's telecom and information marketplace. An article in your Aug. 14 issue documents this problem: Six of the seven leading PBX [private branch exchange] companies in the U. S. are foreign.

There is a key word missing from our country's vocabulary today: trust. Government, business, and consumers do not trust each other. Because there is little trust, we create rules and laws that are designed to protect us from internal competition but not from external harm.

Gary R. Lytle
Vice-President
Michigan Bell Telephone Co.
Lansing, Mich.

The scope of Japanese economic power, as reported in your story, is truly amazing. The concerted cooperation necessary to maintain and expand this juggernaut is equally impressive.

In contrast, American corporations are penalized for traveling along the same path to prosperity as their Japanese counterparts. The breakup of Ma Bell in the name of "antitrust" litigation is a prime example. Smaller does not necessarily mean better.

Clearly, we are going to have to rethink our concept of corporate power if we are to compete head-to-head against a colossus such as Mitsubishi.

Francis Trotter, CEO
Trotter Industries
Seattle

When you talk about *keiretsu*, you should not overlook the importance of attitude. A Mitsubishi man buys products or services from other Mitsubishi companies with no guarantees, he expects other Mitsubishi men to u his company's products. He expect indirect return some day. This is a of mental contract among the emplo of a *keiretsu*. Mitsubishi executives negotiate something at a formal m ing, but the *keiretsu* could never w without the underlying mental cont among Mitsubishi men.

This phenomenon appears not onl Mitsubishi or Mitsui but also an companies that are not directly rela In fact, the biggest group is Japan i or Japan Inc. This *keiretsu* feeling kind of patriotism, family, friends mutual association, or insurance.

Yukoh Yamar
International Consulting
To

Your editorial "Maybe the U. S. c use a *keiretsu* or two" (Sept. contributes to the erosion of Ameri fundamental commitment to free en prise and fair trade.

Your assertion that America sh rethink its antitrust policies is the of "If you can't beat them, join th mentality that prevents the U. S. f taking decisive action in trade relat with the Japanese.

The U. S. beat back cartels and tr decades ago because they concentr too much wealth in too few hands were detrimental to consumers, work and competition. Japan's experienc no different. Japanese consumers sh der the burden of prices 40% to higher than in this country, while t standard of living can't begin to c pare with ours. Japan's cartels locked out competition both internal external, and, increasingly, stories of haustion from overwork are leaking of Japan.

The U. S. should not play by Jap rules. Clearly, the U. S. welcomes pan's investment, as we have from o countries. The only difference betw Japan and our other trading partner that trade is a two-way street with eryone but Japan. Instead of giving on a system that gave us the hig standard of living of any nation and driven the industrial growth and ex sion of the entire world, we should

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loving grandfather Robert
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-Dad 8/4/90

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A HIGHER GAS TAX: UNSOUND AND UNFAIR

Regarding your editorial "Don't wait to raise the gasoline tax" (Sept. 3), a large increase in the federal tax may not produce the hoped-for benefits and would be bad public policy. What it would do is:

- Trigger higher inflation
- Become a fiscal drag on economic growth
- Harm U. S. competitiveness by affecting U. S. companies but not their foreign counterparts
- Have a regressive impact on lower-income Americans
- Create regional disparities, with Westerners and Southerners paying an inequitable share of motor-fuel costs.

Raising the gasoline tax is not a cure-all action. There are more practical and efficient ways to encourage energy conservation and to attack budget deficits. We believe it is poor public policy to impose a large gasoline tax to address these problems, when such an action carries with it adverse economic and social consequences.

Andy Yood
Taxation Director
American Petroleum Institute
Washington

A gasoline tax means the poor must buy smaller cars, which are less safe. Why don't you advocate that trucks be required to get better than six miles per gallon on average?

Why not enforce the speed limits on all roads and save lives and oil?

Why not make luxury cars get better gas mileage?

Harold R. Slosson
Schererville, Ind.

GETTING MORE OUT OF PERSONAL COMPUTERS

As your article "The password is geezer: Golden agers log on" (Cover Story, Sept. 10) indicates, SeniorNet members receive a number of benefits, including discounts on a variety of computer hardware and software products. Intuit, publisher of the Quicken personal-finance program, and Banner Software, publisher of the genea program, Family Tree Maker, hav fered rebates or discounts on their ucts to members of SeniorNet—n all older adults, as stated in your ar

Mary Fu
Pres
Senio
San Fran

Today's applications of personal puters are focused mainly on ness needs ("Home Computers," Story, Sept. 10). However, the computer should provide more than business capabilities if it is to becon popular as the television or the VCR though entertainment and videotex good signs to attract customers, the appeal will show when the user is to interact with the device in a sm natural way. Keyboards, mice, and screens are too bulky or require training in order to be used.

The next step in home compu would be to make them easier to ate, hiding their complexity behind interfaces that resemble everyday o tions such as handwriting and sp recognition. Some of these technol

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vailable today with a high price tag. ɔe the appeal of a mass home mar- vould make them more accessible.

Eugenio Ciurana
IBM
Palo Alto, Calif.

STORS ARE THE PROBLEM, BROKERS

esponse to the article " 'Bond dad- s' are offering ever more kinds of y" (Finance, Oct. 1), what is needed adicate bucket shops and unscrupu- bond brokers is not an increase in rnment regulation, but an end to ohisticated buyers masquerading as ienced investors.

boggles my mind how some credit is, colleges, state and local govern- s, and other small institutions en- millions of dollars to employees are not qualified to make invest- decisions.

Suzanne Pettinato
Hoboken, N.J.

BENEFITS FROM IGN FOR DISASSEMBLY'?

forts by BMW to make plastic, take- part autos signal a most welcome l, where technological common sense can begin to approach environmental sanity ("Built to last—until it's time to take it apart," Design, Sept. 17).

However, isn't taking something apart for complete recycling or refabrication merely an temporary step toward the logical solution?

So far, your magazine has talked about the ease of disassembly but not the subsequent re-use. Why can't the still-viable fenders of BMW's plastic car, for example, be directly re-used on another, newer automobile? Standardized parts and a longer product lifetime would certainly allow this larger ecological benefit.

If we could dissociate the auto from our own individuality and egocentricity, it is conceivable that there could be just seven or eight auto models instead of thousands. After all, how many are truly needed? They could be stringently engineered for longer life and hence more recyclability.

Adopting such ideas for complex products—automobiles, for example—could lead to the ultimate ecological solution. Where most of us live could be so pleasant and litter-free that we would be happy to remain where we are. This would negate the need for these expensive and dirty devices in the first place. And isn't that, after all, the only way the automobile makes ecological sense. Face it now, or face it later.

R. W. Doran
Abcoude, Netherlands

In regard to your recent story about BMW's new $55,000 Z1 sports car, "designed to be disassembled from its metal chassis in 20 minutes," this sure sounds like a snappy idea, and one that would appeal to auto-repair companies, environmentalists—and car thieves.

William Barg
New York

In your article, you stated that BMW is the leader in "design for disassembly" because its Z1 roadster's plastic body can be removed in 20 minutes.

If you parked a regular sheet-metal-bodied BMW in New York City's South Bronx or Brooklyn, there are a few "disassembly experts" who could beat that time easily.

Frank Credendino
Agathon Machine Tools Inc.
White Plains, N. Y.

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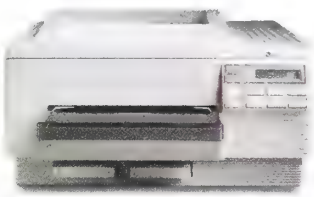

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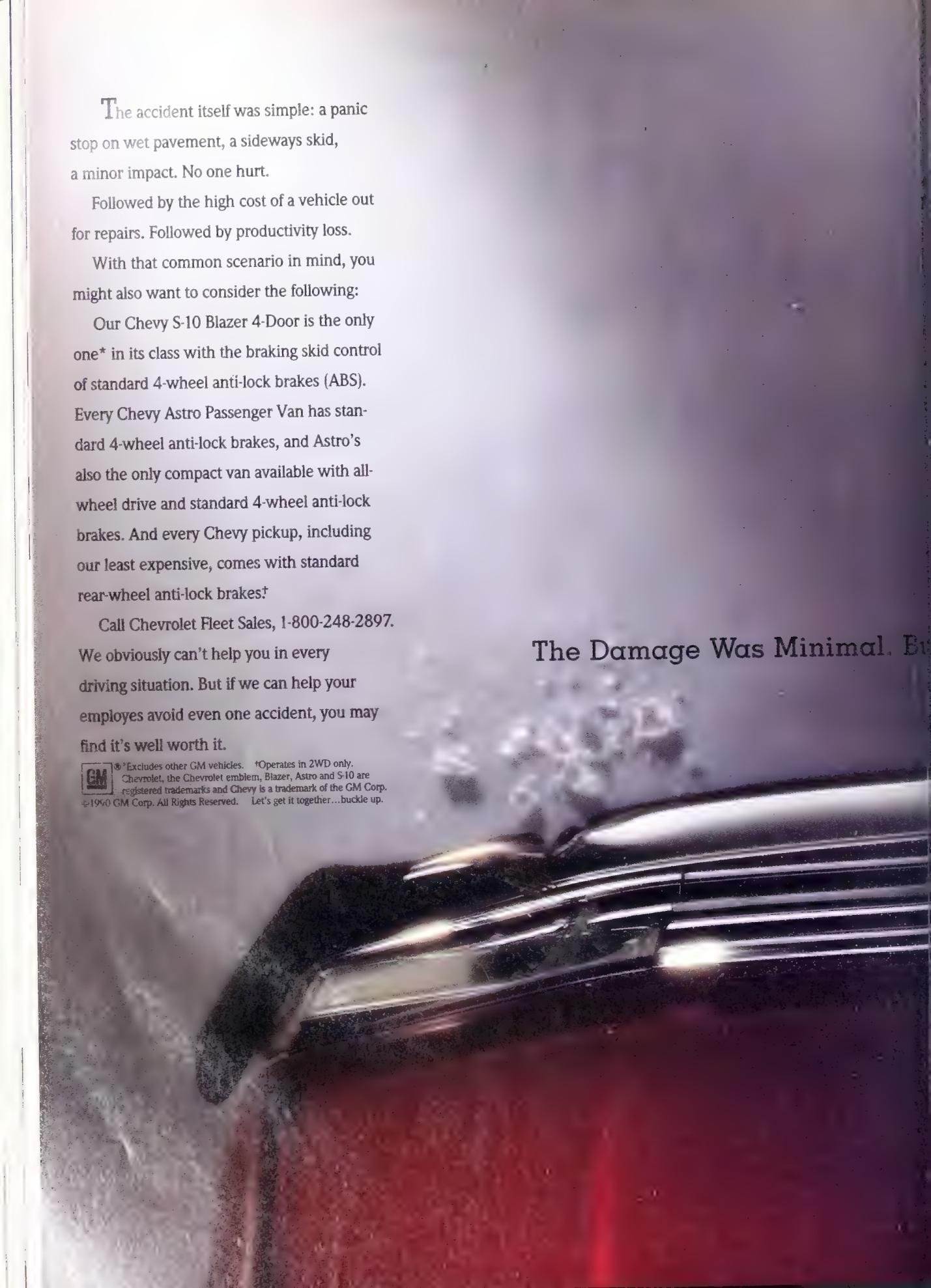

The accident itself was simple: a panic stop on wet pavement, a sideways skid, a minor impact. No one hurt.

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With that common scenario in mind, you might also want to consider the following:

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CASEY: FROM THE OSS TO THE CIA
By Joseph E. Persico
Viking • 601pp • $24.95

DECODING THE LIFE OF SPYMASTER CASEY

In late 1986, fate deprived America of a great anticlimax. As the Iran-*contra* scandal unraveled, Central Intelligence Agency Director William J. Casey underwent surgery for a brain tumor and was left without the ability to communicate.

Whatever Casey knew about the affair—certainly a great deal—remained locked in his damaged brain until his death several months later. But the odds are that neither a congressional hearing nor a trial would have extracted much information from a healthy, alert Casey. If Bill Casey proved anything in his life, it was that he could keep secrets.

Joseph E. Persico, who first dealt with Casey in his 1979 *Piercing the Reich*, a study of covert operations by the Office of Strategic Services, has now authored the old spymaster's life story. His *Casey*, though well written, is sloppily researched. But as the first full biography, it will have to do for the time being.

Casey's life makes a great tale. Born in Queens, N. Y., in 1913, Casey followed the middle-class Irish Catholic path to security and respectability at Fordham University and St. John's law school. He would keep Queens in his voice for a lifetime, he would remain a devout Catholic, and he would certainly become financially secure. But he would never achieve quite the respectability he hungered for—a fact that gives drive and tension to Persico's narrative.

Like many young lawyers of his era, Casey was drawn to New Deal Washington. But he didn't work for the government. He wrote pamphlets and books telling executives how to live with the plethora of regulations flowing from the capital. The essence of his recommendations was to do the minimum necessary to comply with the law. He was extraordinarily good at giving such advice and grew rich doing it. Later, his willingness to push the law to its limits would land him on the edge of legal trouble throughout his public career.

World War II was Casey's grand adventure. As a young Navy officer he was dispatched by OSS Chief William Donovan to London, where he ended up running Allied agents into Germany. The experience left him with a lifelong taste for covert operations.

He spent the next 20 years as a lawyer and an extremely successful private investor before returning to government as chairman of the Securities & Exchange Commission under President Nixon. The fact that he had been sued by shareholders in a number of ventures that he sponsored caused him grief during confirmation hearings. But, despite a close brush with serious, Watergate-related trouble, Casey generally won landmarks at the SEC.

Still, his desire for a top foreign-policy post was frustrated. It wasn't until after he ran Ronald Reagan's 1980 campaign that he got the sort of government

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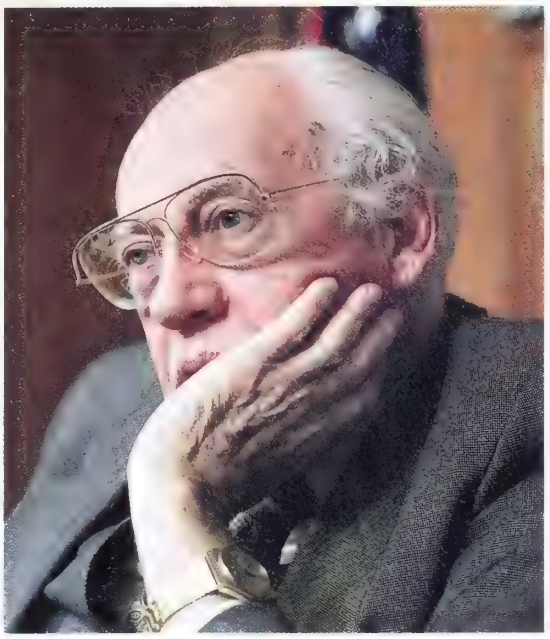
anted—running the CIA. His ar tenure as intelligence boss d to assess. On the one hand, k over an agency rocked by l, mismanagement, and ne- nd restored its pride and pro- nalism. On the other, his pen- for sailing a little too close to nd got him, and the CIA, into nner of trouble.

sico's appraisal of Casey the ster would be more compel- d the author been more care- th his facts. Some of his er- re trivial. He calls Reagan Justin Dart a "drugstore mo- for example, confusing Tup- re maker Dart Industries Inc. the totally unrelated Dart Corp.

Persico also slips into more s mistakes that badly under- is credibility. He claims that l, Casey and the chief of Is- ntelligence worked out a deal which the U. S. would provide in- nce support for a raid on Iraq's r-weapons research facility. In ex- , Israel was to hold its fire on the ed sale of AWACS aircraft to Saudi . "The Jewish lobby took a listless orma stand against the AWACS Persico writes. "The Israeli government barely objected." In fact, AWACS was the bloodiest foreign-policy brawl of Reagan's first term. The White House had to pull out all the stops to win Senate approval by a two-vote margin. And Senator Charles Percy (R-Ill.), who led the fight for the Administration, lost his seat in 1986, after pro-Israel groups targeted him in retaliation.



CASEY: A LIFELONG TASTE FOR COVERT OPERATIONS

The book's final chapters explore Casey's role in the Iran-*contra* affair. Persico maintains that Casey, who was prepared to back the *contras* by just about any means, knew about and at least tacitly supported the diversion to Nicaraguan rebels of the profits from arms sales to Iran. But he concludes that the amateurish operation was run by the White House and not masterminded by Casey or anyone else at the CIA.

Persico disputes Bob Woodward's claim, in his book *Veil*, that he extracted a deathbed confession of complicity from Casey. The CIA director, Persico demonstrates quite effectively, was in no condition to confess anything to anyone.

Unfortunately, by the time Persico gets to Iran-*contra*, the reader isn't sure he can be trusted. And that's too bad, because his analysis is cogent and well-argued. *Casey*, in fact, is on the whole a good book. It's just a shame that Persico didn't do the sort of careful research that Casey, a notorious stickler for accuracy, would have demanded.

BY STEPHEN H. WILDSTROM

Senior News Editor Wildstrom tracked Bill Casey's career for nearly 15 years.

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BUSH IS BURNING THE MANTLE HE INHERITED FROM REAGAN

BY PAUL CRAIG ROBERTS

Neither the President nor his new Democratic allies can explain how raising taxes is going to ward off recession. Only a pro-growth budget can contain the deficit

President George Bush, Senate Minority Leader Bob Dole (R-Kan.), and House Minority Leader Robert H. Michel (R-Ill.) are doing a good job of convincing voters that there is no difference between a Republican and a Democrat. They participated in and endorsed a budget agreement that would break the no-tax-rise campaign promise that transferred Reagan's mantle to Bush and distinguished Bush from his Democratic rival.

The economics of the budget agreement are equally absurd. None of the participants has explained how raising taxes can ward off recession. Theory, logic, and empirical facts played no role in the agreement. The agreed level of budget savings is based on deception. The government is withholding revised economic assumptions that it expects to release in November in order to claim $500 billion in deficit reductions. But government officials who oppose this deception have given me a copy of the revised forecast. The revised assumptions eliminate 40% of the claimed deficit reductions. Indeed, the downward revisions in real economic growth for 1990 and 1991 wipe out all but $8.1 billion of the $133.8 billion tax increase, along with $72.6 billion of the claimed outlay reduction for 1991-95.

This revelation alone is compelling evidence that Housing & Urban Development Secretary Jack F. Kemp, House Minority whip Newt Gingrich (R-Ga.), supply-side economists, Keynesian economists, and practically all economists in the country are correct to emphasize that a pro-growth budget is the only way to contain the deficit in a weakening economy. If it takes only two years of lower-than-projected growth to wipe out the revenues from a five-year tax increase, it is obvious that a recession will drive the red ink to new heights.

PYRRHIC VICTORY. If the "bipartisan budget agreement" had been produced in a parliamentary democracy, the government would have had to resign for gross incompetence. In America's democracy, however, an opposition that controls Congress fattens on the woes of the party in the White House. By signing on to a budget strategy that ignores the weakening economy, Bush acquiesced in his own demise.

Perhaps it is just as well. The primary goal of the Republican Establishment, which Bush represents, is to obliterate the unique accomplishment of Ronald Reagan: a record economic expansion without any rise in the rate of inflation.

In the end, the Establishment may succeed in tarnishing Reagan, but it will be a Pyrrhic victory, which all of us will pay for.

Allegedly, the legacy of Reagan's tax cuts is persistent budget deficits that are destroying the economy. Reagan's real sin, however, is not deficits, which never before caused a ripple within the Beltway, but his having wrested the nomination and the party from the politicians accustomed to ruling the Republican roost. Moreover, he did so easily and survived every effort of the media, political Establishments—including those within his own government—to destroy him with scandal and controversy.

OLD CANARD. Now, the deficit will be continued indefinitely, nurtured by tight policy and high spending. During the first 11 months of fiscal 1990, federal outlays were $133 billion above the corresponding months of 1989.

A decade of budget deals has left the deficit untouched. Yet one continues to hear that the deficit is the legacy of the Reagan tax cuts' failure to pay for themselves. This oft-repeated assertion has no basis in fact. To begin with, Reagan's Economic Recovery Tax Act of 1981 explicitly assumed that every dollar of tax cut would result in a lost dollar of revenue. That's the only assumption the Treasury Dept. has ever allowed the government to make about tax cuts. What this means, of course, is that the Reagan Administration over-predicted the revenue loss from its tax cut.

There have been many studies that bear this out, and none that doesn't. For example, in his recently published book *The Growth Experiment*, Lawrence Lindsey shows that the Reagan tax cuts initially accounted for 30% of the deficit and that higher spending accounted for 70%. But by 1987, higher spending accounted for 100% of the deficit.

Moreover, Lindsey shows that the reason the tax cuts contributed to the deficit was that they broke the back of inflation more rapidly than expected and deprived the Treasury of revenues from an inflated tax base. I have independently documented this fact, both in published writings and congressional testimony. A 1987 study from the Treasury Dept. showed that there is no "structural deficit" as a result of the 1981 tax cut. Public policy in a free society where countless media voices continues to be distorted by repetition of a decade-old canard.

This is the 10th year of budget deficits and so far—except for 1987, when Reagan achieved a near budget freeze—the only thing that has reduced the deficit has been economic growth, now jeopardized by Bush's abandonment of Reaganomics. Despite the dismal record of budget deals and higher taxes, the politicians expect us to believe their story one more time.

PAUL CRAIG ROBERTS IS CHAIRMAN OF THE INSTITUTE FOR POLITICAL ECONOMY IN WASHINGTON

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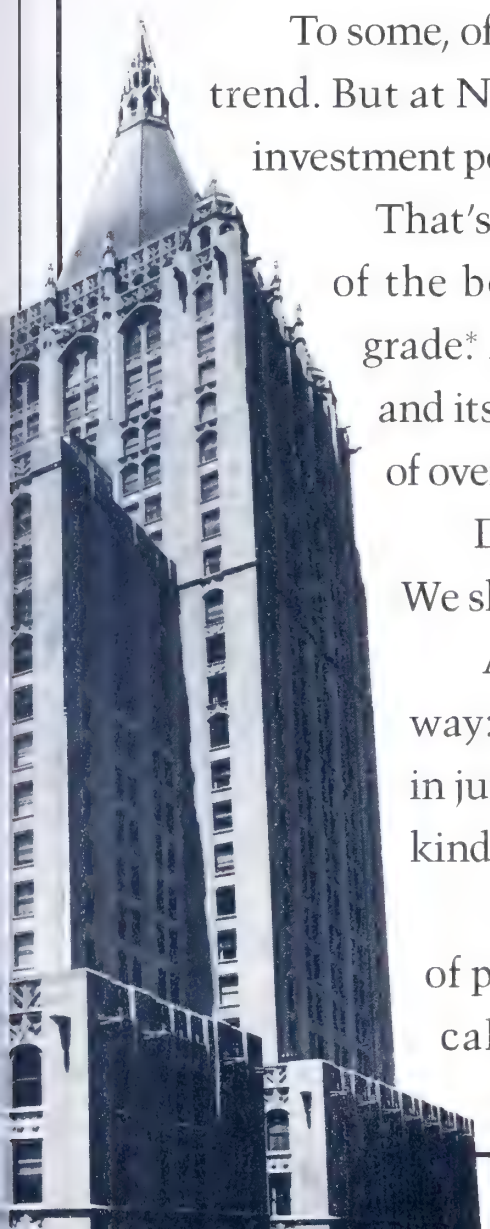

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A COLLAPSE IN CONSUMPTION? 'IT AIN'T HAPPENED YET'

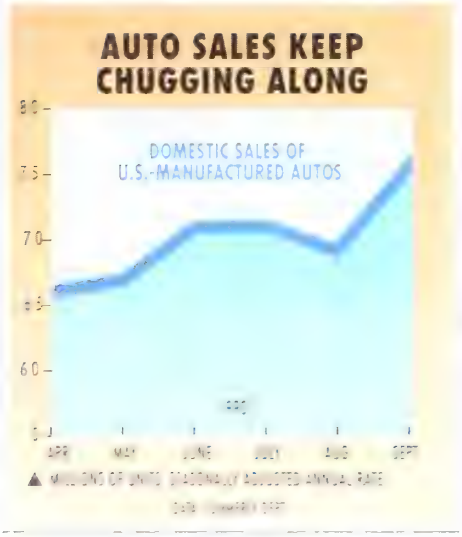
[illegible] can consumer is finally losing his nerve. Stunned by the gulf crisis and surging gasoline prices, fearful of rising unemployment and higher taxes, debt-burdened households are tightening [illegible]—and thus ensuring the onset of a recession (if one has not already begun).

"There's only one trouble with the collapsing consumption scenario," cautions Michael K. Evans of Evans Economics Inc. "It ain't happened yet." Economist William V. Sullivan Jr. of Dean Witter Reynolds Inc. agrees. "The economy's third-quarter growth rate is likely to look far less anemic than the second-quarter rate," he says, "and the consumer will be largely responsible."

Indeed, despite sagging consumer confidence and declines in both retail sales and real disposable income in August, government data suggest that consumer spending proved remarkably resilient in the third quarter. "After falling earlier in the year, real personal spending jumped in June and has been trending higher since then," says Evans. "Almost all categories of discretionary spending except motor vehicles rose in real terms in August." Sullivan notes that the July-August average for real personal consumption expenditures was $22 billion (in 1982 dollars) above the second-quarter level, indicating that consumer spending in the third quarter should make its biggest contribution to the economy's performance in a year.

Moreover, there's a good chance that [illegible] quarter consumption even more than the two-month gain suggests. After falling sharply in the wake of the invasion of Kuwait, domestic auto sales hit a 7.6 million-unit annual rate in September—the fastest monthly pace in a year.

None of this means that consumers won't retreat in the months ahead, of course. Alarmed by reports of sluggish traffic, retailers are battening down the hatches for their worst Christmas season in many years. But Michael Evans thinks they may be unduly pessimistic. "Consumers aren't spending freely," he concedes, "but they're apparently not cutting back sharply, either." For the moment, they seem to have concluded that "the Middle East crisis and higher energy prices are a temporary affair."



HIGH RENTS COULD BE KEEPING THE YOUNG FROM SETTING UP HOUSE

As if the housing industry weren't having enough problems, a new study by economists Patric Hendershott, Donald R. Haurin, and Dongwook Kim concludes that the Tax Reform Act of 1986 will cause Americans in their 20s to form 250,000 to 500,000 fewer households than they would have if the act had not been passed. The study, published recently as a National Bureau of Economic Research working paper, focused on two variables: the impact of tax reform on market rents for apartments and the reaction of young [illegible]

The authors estimate that higher costs resulting from longer depreciation periods, higher capital-gains rates, less generous treatment of construction costs, and other tax changes will eventually result in a 10% to 20% increase in inflation-adjusted rents. Their analysis of household-formation patterns among 2,355 youths aged 22-29 in 1987 suggests that a 20% rise in real rents leads to a 10% increase in youths living at home and a 5% drop in marriages. With 39 million people in their 20s, that translates to 250,000 to 500,000 fewer households established by such people.

Hendershott thinks it will take five or six years for the impact of tax reform on rents and household formation to be fully felt. And he notes that it is the multifamily sector of the housing industry that will experience a reduction in demand. "With apartment rents rising, single-family homes may even benefit," he says, "since home ownership will become more attractive to this group at the margin."

UNCLE SAM'S PUDDLE OF RED INK GROWS AND GROWS

The budget package Congress f[illegible]ly adopts may indeed repre[illegible] $500 billion in deficit cuts, as l[illegible]lators have promised. But even if it [illegible] "the underlying reality of the bu[illegible] outlook," says economist Rober[illegible] Marks of Siff, Oakley & Marks Inc. that the deficit is now outpacing eff[illegible] to bring it under control."

In January, he notes, the Adminis[illegible]tion projected a deficit of only $117[illegible]lion for fiscal years 1991 through 1[illegible] Since then, however, its baseline pre[illegible]tion has soared to $829 billion. "So e[illegible] if a true $500 billion deficit-cutting [illegible] is passed," says Marks, "the red ink [illegible] still be almost three times what was [illegible] jected just nine months ago."

What's more, even the huge new b[illegible]line deficit projection seems unduly [illegible]mistic. It assumes, for example, [illegible] government revenues during the [illegible] three fiscal years—before any new [illegible] increases—would rise as a proportio[illegible] gross national product to levels not [illegible] since the years preceding the Rea[illegible] tax cuts. "That's inconceivable in a s[illegible] growth or recessionary environme[illegible] says Marks, who sees "many more [illegible]cit-cutting battles in the years ahead

THE HOUSING SLUMP IS HAMMERING HOME REMODELERS

Residential remodeling is often[illegible]garded as a recession-resistant[illegible]dustry because hard times s[illegible] home owners who would otherwise t[illegible] up to remodel their houses. Lawre[illegible] Horan of Prudential-Bache Securi[illegible] Inc., points out, however, that "remo[illegible]ing outlays fell last year, even tho[illegible] the economy was still growing."

Further, Horan reports that s[illegible] spending is faltering again this year[illegible] ter a first-quarter spurt related to [illegible] building in the wake of the natural [illegible] sasters (the San Francisco earthqu[illegible] and Hurricane Hugo) that occurred [illegible] the last half of 1989. Real sales in bu[illegible]ing-supply and hardware stores, for [illegible] ample, were down in the second quar[illegible] from their year-earlier level.

"Sagging home prices," theori[illegible] Horan, "have apparently made ho[illegible] owners aware that they may not be a[illegible] to recoup the cost of improveme[illegible] when they eventually sell their home

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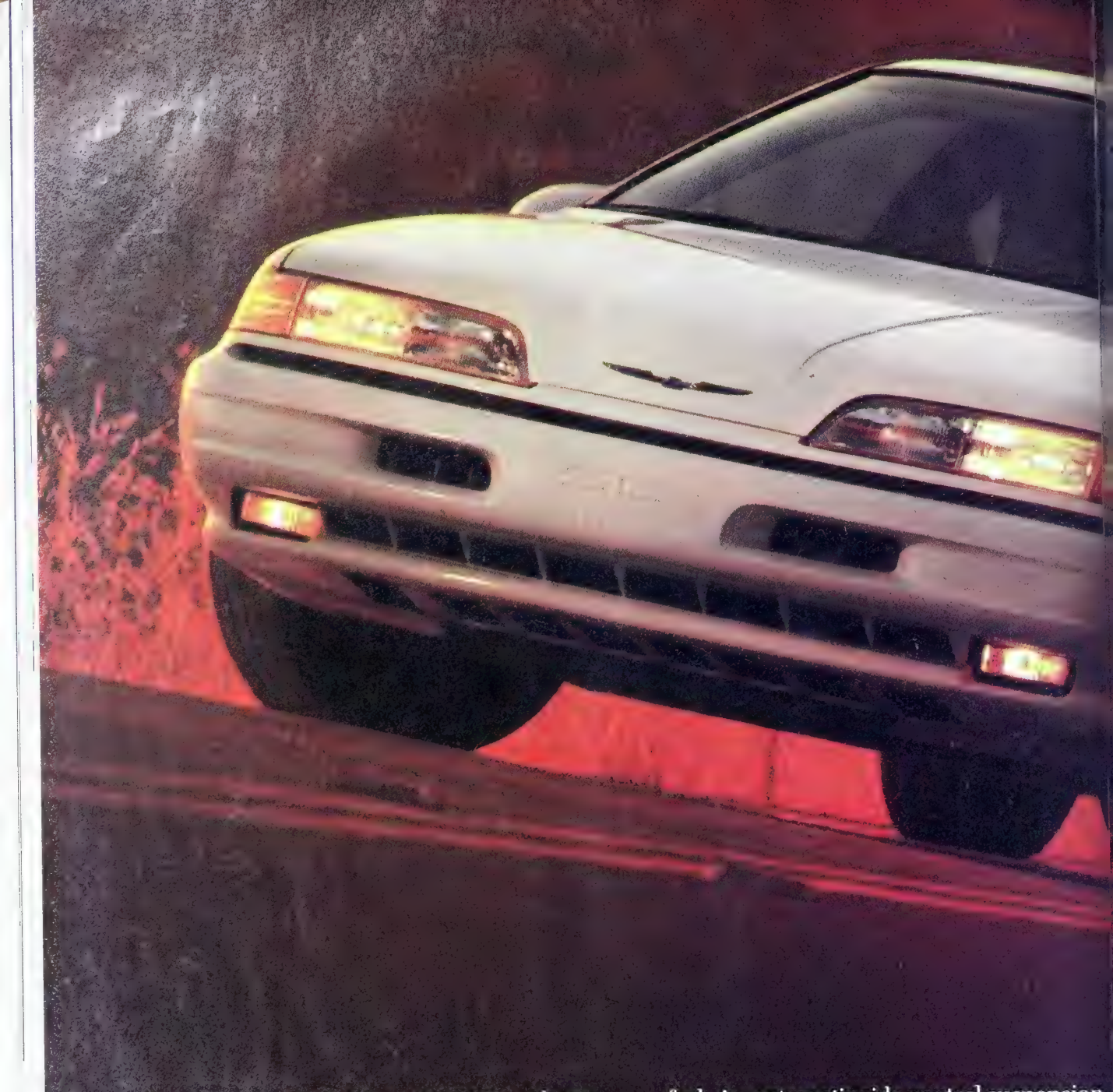

Its energy is supplied by a 210 SAE net horsepower, 3.8L, V-6, supercharged engine, linked to a 5-speed manual transmission. Precise control is enhanced by stabilizer bars, variable rate springs, tension struts and an isolated subframe. Just add a twisty road and you've got all the ingredients to make your Ford Thunderbird SC really hum.

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s. ft. @ 2600 rpm, 5-speed, manual
rive transmission

es: 4-wheel, anti-lock discs

ing: Speed sensitive, variable assist,
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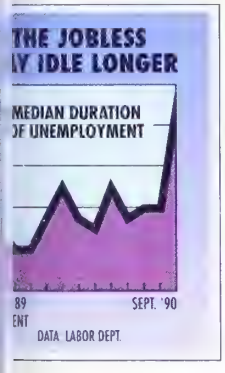
BER 22, 1990

BY JAMES C. COOPER AND KATHLEEN MADIGAN

OUNDING THE PAVEMENT— ND MARCHING INTO RECESSION

ach month, economists from Wall Street to Main Street eagerly await the government's report on the labor markets. It's the first broad reading of economy's performance in the preceding month. But time, the employment report took second billing to ington's budget follies. That show was certainly taining—like watching the Three Stooges doing k tragedy.

was just as well. The September job numbers aren't un at all. They are further evidence that the econo- s sick—and not about to get better anytime soon. loyment fell broadly for the second consecutive h, the unemployment rate rose to a 2½-year high, those out of work are taking much longer to find jobs (chart). The report confirmed that manufactur- nd construction are mired in recession and that the ce sector may not be far behind.



Judging by the minutes of the Federal Reserve Board's policy meeting in late August, the Fed would like to give the economy a hand by cutting interest rates. An easing move seemed imminent when Fed Chairman Alan Greenspan publicly extolled the original budget accord. But with that deal dead, the Fed now has to wait for the new version.

cord oil prices only complicate the Fed's situation. roke through $40 per barrel on Oct. 9. The combina- of inflation worries and the budget mess sent long- interest rates soaring and pushed down the Dow s industrial average by 78 points on the day.

e trouble is that whenever the Fed does loosen up, ll probably be too little, too late. The September oyment report was the strongest signal yet that the omy, if not already in a recession, is heading ght into one.

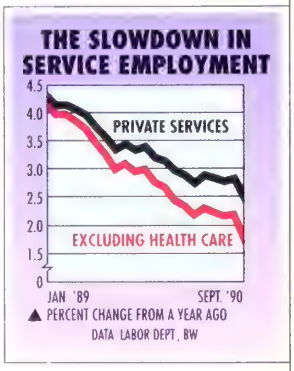
S ARE IISHING ROSS BOARD

The most striking feature of last month's job numbers was the breadth of the weakness. Nonfarm industries lopped 101,000 jobs off their payrolls in Septem- 42,000 of which were laid-off census workers. But ne second consecutive month, more of the 356 indus- surveyed by the Labor Dept. trimmed their payrolls added to them. Only 44% put on new workers last h, the fewest since December, 1982, when the econ- had just begun to crawl out of the last recession.

Goods producers have borne the brunt of the economy's problems, and that's where employment took the biggest hit last month—especially manufacturing. Until recently, factory job losses had been consistent with a sluggish economy. Now, the declines are accelerating.

Manufacturing employment peaked in January, 1989. Since then, jobs have fallen by 520,000, but 114,000 of that drop occurred in just the past two months. After payroll cuts averaging about 23,000 per month from March through July, factories laid off 48,000 workers in August, 66,000 in September. Durable goods industries continued to account for most of the declines.

Last month's job losses, combined with no change in the factory workweek and a slight decline in factory overtime, mean that industrial production will be hard-pressed to show any growth for the third consecutive month. Further weakness in factory employment and output seems likely in coming months, as consumer and business demand keeps weakening in the face of eroding confidence, incomes, and profits.



Construction jobs are also on the skids. They peaked in February. Since then, construction employment has dropped by 194,000 jobs, including a 20,000 decline last month. As in manufacturing, further losses seem likely. Construction contracts have fallen sharply this year, and when old projects are completed, new work will be hard to find.

FEWER BURGERS, FEWER FLIPPERS

Goods producers don't have a monopoly on weakness when it comes to the labor markets, however. Lately, the service sector has begun to show considerable softness. That's important to the outlook, because services have generated 80% of this expansion's new jobs.

During the past year, annual job growth in private service industries—excluding government—has slipped to only 2.5%. That's the slowest pace in seven years. Service employment rose 3.2% last year and 4.2% in 1988. In fact, private services are now growing more slowly than at the start of six of the eight postwar recessions.

The slowdown in service jobs is actually more severe than the recent pace indicates (chart). The booming health care industry, which comprises only 12% of private service employment, has accounted for 42% of service-job growth so far this year. Health services added

ERIC HOFFMANN/BW

45,000 workers in September. Excluding health care, the annual growth of private service employment has dropped to only 1.8%.

Those service industries directly dependent on goods are already suffering. Employment in retail trade, for example, declined for the second consecutive month in September. Jobs in general-merchandise stores have led the drop. They are down by 70,000 from May, 1989.

Other service industries are also cutting payrolls. Jobs in finance fell in September, as did employment in real estate, which has lost 15,000 positions in the past five months. Jobs in business services are also shrinking.

UPWARD PRESSURE ON WAGES IS WEAK

With job opportunities fading, it's not surprising that more indicators now point to increasing slack in the labor markets. That's not very heartwarming for jobholders, but it is encouraging for the inflation outlook. As wage pressures wane, so will the pace of prices.

Civilian joblessness, the most visible measure of job-market slack, hit 5.7% in September, the third consecutive rise since it stood at 5.2% in June. Judging by the new deterioration in other unemployment measures, the jobless rate could easily surpass 6% by yearend.

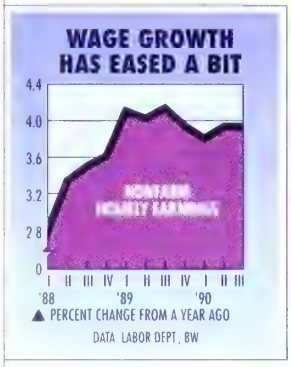
Other ominous signs in September: The median length of unemployment jumped to 6.2 weeks—the longest in 2½ years. A rising percentage of the newly unemployed in September lost their last job, as opposed to having quit voluntarily. And the number of jobholders working part-time because they couldn't find full-time work jumped sharply to the highest level since early 1988.

CONSUMERS WILL FEEL THE PINCH EVEN MORE

Slack labor markets are sure to ease the pace of wage growth. Wage costs have been the main fuel under price inflation during the past two years, particularly in services, where the combination of wage gains and poor productivity growth has pushed up unit labor costs.

Now, wage growth has already eased a smidgen ing the past year, and a further slowdown seems lik It didn't look that way in September, when ave hourly earnings in nonfarm industries rose a hefty 0 However, the quarterly pattern tells a different sto

Wage growth has, in fact, flattened out during past year and a half (chart). The annual pace of ho pay appears to have peaked at about 4.1% in the t quarter of last year. By the third quarter of this y wage growth had edged lower, to 3.9%.



Wages in private service dustries are still rising one centage point faster than e ings in manufacturing—4 compared to 3.6%—but ser wages are no longer accele ing as they were through middle of last year. As w ness in the labor markets tinues to spread, the pace hourly earnings in service likely to slow in 1991.

But while slower wage growth will help inflatio will make matters worse for consumers, especially th who are strapped with heavy debt burdens. Consu installment credit rose $2.1 billion in August, afte large $4.7 billion increase in July. During the past th years, consumers have carried the highest percentag debt relative to disposable income in the postwar per Increasing debt in the face of moribund spending sign that the debt load is getting harder to pull.

The slowdown in jobs and incomes, combined with hit from higher energy costs, will result in little if growth in real disposable income during the next quarters. And when Washington gets its act toget new taxes will take even more money out of peop pockets. With consumers—and the economy—alre suffering, a recession seems unavoidable.

THE WEEK AHEAD

BUSINESS INVENTORIES

Monday, Oct. 15, 10 a.m.
Business inventories probably rose 0.4% in August, according to a survey of economists by McGraw-Hill Inc.'s MMS International. Stock levels had jumped 0.7% in July. Factory inventories, about half the total, have already posted a 0.4% gain. Stock levels in retail and wholesale trade are likely to rise faster, partly reflecting weak demand.

HOUSING STARTS

Wednesday, Oct. 17, 8:30 a.m.
Economists expect housing starts for September to decline to 1.10 million, according to the MMS survey. August starts were 1.13 million. New building has already fallen 43% since early 1986, but construction jobs fell further in September, and inventories of unsold homes are still high.

INDUSTRIAL PRODUCTION

Wednesday, Oct. 17, 9:15 a.m.
The MMS consensus projects a 0.2% drop in industrial production for September, following a 0.2% decline in August. A surge in utility output partially offset a drop in factory production, where employment dropped sharply and hours worked fell.

CAPACITY UTILIZATION

Wednesday, Oct. 17, 9:15 a.m.
Given the expected drop in industrial output, economists look for September operating rates to fall to 82.9% f 83.1% in August.

CONSUMER PRICE INDEX

Thursday, Oct. 18, 8:30 a.m.
The CPI probably jumped 0.8% in Sept ber for the second consecutive mo according to the MMS survey. O again, energy prices led the surge, w prices excluding food and energy li rose a more moderate 0.4%.

MERCHANDISE TRADE DEFICIT

Thursday, Oct. 18, 8:30 a.m.
The MMS consensus projects a slight rowing in the August trade deficit, t billion from an already large $9.3 bil in July. Imports will reflect a jump the cost of foreign oil.

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SAYS A NOW-CONTRITE BUSH: "I GUESS I LEARNED I CAN'T DO IT EXACTLY MY WAY WHEN WE GET DOWN ON SOMETHING LIKE THE DEFICIT"

BUSH IS BLOODIED —AND BOWED

THE POLITICAL WOUNDS FROM THE BUDGET FIASCO COME AT A TERRIBLE TIME

At 1:15 a.m. on Oct. 5, a bleary-eyed George Bush, glued to the television set in his White House bedroom, watched in dismay as the House of Representatives crushed the deficit-cutting pact his top aides and congressional leaders had struck after four months of tough negotiations. It's a scene Bush won't soon forget, for it may prove to be a pivotal moment in his Presidency.

Suddenly, a Bush White House that had glided through nearly two years of effortless political dominance is in trouble. In the wake of the budget fiasco and the resulting shutdown of the government (table), the President's approval rating plunged 15 points, to around 60%. That's still a respectable standing in the heartland, but Bush's real problems are in Washington, where the political bloodletting is intensifying. White House fumbling of the budget has left congressional Republicans bitter and divided.

In Carteresque fashion, Bush has taken to saying "blame me" for the budgetary mayhem. But the President seems unwilling to lose further political capital by injecting himself into the center of the dispute. On Oct. 10, Presidential spokesman Marlin Fitzwater announced that the White House was "not taking a position on any specific item" in the budget now being drafted on Capitol Hill. Democratic congressional leader[s] Bush's detachment as a great pol[itical] opening. The revised budget will r[e]ble the rejected deal in its genera[l] line. But the new plan will rely mo[re] tax increases for rich individuals less on spending cuts, particularly [those] that would affect farmers, the el[derly] and the unemployed.

Bush's political wounding could h[ave] have come at a worse time. The ecc[onomy] seems to be sliding into a rece[ssion] 200,000 troops are poised for war [in the] Middle East, and the world is wond[ering] if anyone is in charge in Washi[ngton] (page 30). Federal Reserve Board [chair]man Alan Greenspan has indicate[d]

READING THE PRESIDENT'S LIPS

Aug. 18, 1988 Bush, accepting the GOP nomination, vows: "No new taxes"

Jan. 29, 1990 Bush proposes a $1.2 trillion fiscal 1991 budget, calling for some small tax and fee increases—and a cut in the tax rate on capital gains

June 26 With budget talks stalled, Bush explicitly breaks his no-tax pledge, admitting that any agreement would require "tax revenue increases"

Sept. 30 Bush and congressional leaders announce agreement on a five-year, $500 billion deficit-cutting plan, including $134 billion in tax hikes. Bush drops the capital-gains cut, and Democrats give up on higher tax rates

Oct. 5 The House rank and file rejects the compromise overwhelmingly

Oct. 8 The House approves a patchwork plan crafted by Democratic leaders. Higher tax rates and a capital-gains cut are put back on the table

Oct. 9 Bush says he'll mull higher tax rates in trade for a capital-gains cut. Hours later, he abandons that stance after meeting with Senate Republicans

DATA: BW

rill not ease interest
s until a "credible"
promise is enacted
law (page 31). With
economy on the
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Bert A. Rockman,
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s sudden problems
ht him by surprise. During his tri-
hal first 20 months in office, the
et empire collapsed, an invasion of
ama landed archfoe Manuel Noriega
il, and Nicaraguan voters tossed out
Marxist Sandinista government. The
ident wowed the world when he
ed Iraqi leader Saddam Hussein's in-
on of Kuwait into a riveting display
lobal coalition-building. And 14 ve-
all of them sustained, allowed him
ominate the Democratic-controlled
gress.

KEN PROMISES. The contrast to his
er successes has heightened the
age Bush has suffered in the budget
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lt led by the No. 2 Republican in the
se, Minority Whip Newt Gingrich of
gia. For months, the White House
kept restive GOP House members in
by promising that revenue increases
d be kept to a minimum, capital-
s taxes would be cut as part of any
ement, and reductions in domestic
ding would be the centerpiece of
budget pact.

stead, Bush swallowed a deal that
ired $134 billion in tax increases,
ly any cuts in do-
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care and farm sub-
s, and no capital-
s reduction. "Bush
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history of mankind
he Middle East,"
political scientist
iam Schneider of
American Enter-
Institute. "But on
tol Hill, he's shoot-
it his own troops."
ouse Republicans
e livid. But the
e House thought it
d win them over
a two-day lobbying
and some personal schmoozing by Bush. When it became clear that the Administration couldn't deliver the majority of House Republicans it had promised, Democrats abandoned the compromise. "It was the most inept White House operation I'd seen in 14 years here," moans Representative Mickey Edwards (R-Okla.), a member of the House GOP leadership.

Congressional Democrats quickly pushed through a modified budget blueprint. But the off-stride White House continued to spread confusion among friend and foe alike. On Oct. 9, Bush said he might accept higher tax rates for the wealthy in return for his cherished cut in capital-gains taxes. Furious Senate Republicans stormed to the White House, and within hours, Bush retracted the offer. On Oct. 10, the White House refused to confirm either of the positions Bush had taken the day before.

The President's ability to repair the damage on the Hill is hampered because legislators of both parties have lost confidence in two of the Administration's top budget ambassadors: Chief of Staff John H. Sununu and Budget Director Richard G. Darman. In fact, Administration representatives were kept out of the negotiations that produced the substitute budget package. "We have an awful lot of healing to do," sighs one senior White House official.

House Speaker Thomas S. Foley (D-Wash.) and Majority Leader George J. Mitchell (D-Me.) were also hurt by the rejection of the first budget deal. For the time being, though, the Democrats are firmly in control of implementing the budget agreement. Foley and Mitchell have moved effectively to unite their troops behind the new package, which plays to Democratic interests. The well-off are likely to be hit with higher luxury taxes and steeper medicare payroll levies. And the share of medicare costs that the elderly must pay will be much lower than in the original plan. "Rank-and-file Democrats are happy," says Representative Charles E. Schumer (D-N.Y.), who opposed the original deal. "Now, we get a chance to design our own package."

TAKING THE BLAME. That's fine with the White House—for now. "I guess I learned I can't do it exactly my way when we get down on something like the deficit," said Bush, as he took the blame for the weekend fiasco. "We need time to calm things down, cool things off."

But Congress, facing an Oct. 19 deadline for completion of a tax-and-spending package, has no time to spare. Hill Democrats are racing ahead with little or no guidance from the White House. In the end, the veto may be the President's only tool if Congress hands him a budget he can't stomach. But not signing the measure could mean another government shutdown and renewed financial chaos.

The spectacle of a government that's unable to resolve basic issues has already shaken the markets. Another round of paralysis could ensure that President Bush spends the last half of his term dealing with what he likes the least—crises at home.

By Douglas Harbrecht and Paula Dwyer in Washington

HOUSE SPEAKER FOLEY ALSO TOOK A HIT—BUT NOW HE'S REUNITING HIS TROOPS

Commentary/by Blanca Riemer

THEY'RE FED UP WITH UNCLE SAM'S DITHERING OVERSEAS, TOO

Remember, during the Reagan years, how the Germans and the Japanese nagged the U. S. about the need to put its economic house in order? Remember their outcry when former Treasury Secretary Donald Regan produced a study saying that budget deficits didn't matter? Today, as Washington wallows in budget chaos, that chorus of disapproval has turned to silence. America's rival industrial powers are watching with detachment—and a touch of disdain—the latest failure of the U. S. to address its No. 1 economic problem.

Instead of preaching, foreigners are doing something that can potentially hurt a great deal more: They're not buying U. S. government securities—that is, they're no longer financing the growing budget deficit. They were net sellers of $2.5 billion worth of U. S. Treasury debt during the first six months of 1990, after buying $54.6 billion worth of it in 1989 (charts). So far, the U. S. bond market has withstood the foreign withdrawal amazingly well. But as the U. S. is increasingly left to its own devices—and as the deficit mounts into the $300 billion range—it will have to dig deeply into an undependable pool of savings to get by.

STEEPER PLUNGE? The result could well be higher U. S. interest rates. That's bound to deepen the incipient U. S. recession and hurt other Western economies, already shaken by higher oil prices and mounting inflation. "The budget deficit will push interest rates up and can thus destabilize the rest of the world," says French Finance Minister Pierre Bérégovoy. On Oct. 9 alone, the price of the U. S. Treasury's benchmark 30-year bond fell 1¾ points, pushing its yield to 8.96%, while the dollar continued to sink against the mark and the yen.

The Japanese were the first to vote with their feet. In 1989, when the U. S. market's lure was at its strongest, Japanese investors bought $48 billion worth of Treasury securities. The climate has changed radically since then. The Tokyo stock market has fallen 40% since January, and higher interest rates and new savings instruments are keeping yen at home. The Japanese have become net sellers of U. S. securities, unloading $8.9 billion worth during the first half of 1990. That trend should accelerate until at least next spring, says Mark Cliffe, chief economist of Nomura Research Institute Europe Ltd. in London.

Germany is also shifting gears dramatically, not only absenting itself from U. S. markets but also competing with the U. S. for the world's savings. The Bundesbank has calculated that Germany's total budget deficit, including borrowing needed to finance reconstruction of what was East Germany, will total $65 billion. That equivalent to last year's entire current account surplus.

VALIANT. The upshot is that German investors will probably remain in the current stay-at-home mood. During the first half of this year, the Germans bought a puny $860 million worth of U. S. Treasury paper, down from $12.5 billion in 1987.

Optimists emphasize that U. S. markets have operated without foreign money for almost two months, defying punditry predictions of collapse. Furthermore, thanks to a surge in the saving rate—from 3.7% in 1987 to 6.2% now—Americans have valiantly finance the budget deficit even if that means decreased funds for the private sector.

That rosy view does not take into account the potential sell-off of government securities still held by foreigners if the dollar declines even more. Richard Koo, senior economist at Nomura Research Institute in Tokyo, notes that if the dollar falls to 120-125 yen from its current 129, the Japanese might offset their currency losses by selling some of the $220 billion worth of U. S. securities they have amassed since 1977.

And right now, foreign exchange experts such as John Lipsky, director of international research at Salomon Brothers in London, are predicting that the dollar could drop to 120 yen and 1.40 marks from its current value of 1.52 marks—by the first half of 1991. That raises the scary prospect of further sell-offs. Even if that fall doesn't occur, the Germans and Japanese have plenty of incentive to keep their money at home—and little reason to go on financing a deficit that Washington doesn't have the will to cut.

)W THE BUDGET BUNGLE)G-TIED THE FED

ɛnspan linked lower rates to deficit reduction—and boxed himself in

When Congress finally put aside its budget rebellion to cobble together a stopgap deal on 8, everyone in Washington, from tourists locked out of museums to dent Bush, breathed easier. Every- that is, except Alan Greenspan. The ral Reserve Board Chairman now himself with less maneuvering than ever in a simultaneous fight ıst inflation and recession (charts). ɛr months of desperately hoping ny sign of a plan to cut the deficit, ıspan had strongly endorsed the ıal $40 billion fiscal 1991 package ıced by White House and congres- l budget summiteers. In a bit of ɔtle lobbying, he warned that "fail- o enact the agreement would pro- an adverse reaction in financial ets that could undercut our econo- Less than 48 hours later, the e voted the deal down, setting off a end of tumult.

ʌvmakers shoved through a bill to ne government up and running be- the credit markets reopened after nbus Day, but Greenspan's warn- ɔroved prophetic. On Oct. 9, Trea- bonds, the dollar, and stocks all ɛed. "No matter where you are in ıarkets, it's ugly," says Leonard J. ɔw, partner in the New York bond- ɔry firm Griggs & Santow.

EAK. The budget crisis wasn't the thing troubling the markets. Vio- on Jerusalem's Temple Mount and threats from Iraq's Saddam Hus- ɔushed oil futures prices to $40.95 a l on Oct. 9. But fears that Wash- n's paralysis was infecting the Fed hat interest rates might not be cut ʌeeks, if not months, perhaps ıed most heavily on investors. lation hawks at the central bank argued that the risks of oil-shock ion outweigh the dangers of reces- But Fed policy is tilting toward -and September's dismal employ- figures, showing a loss of 101,000 ırm jobs, should have cleared the for an easing step. By backing the ɛt summit pact, however, Green- linked Fed policy to progress on deficit—and boxed himself in. rly, if Greenspan is going to re- credible, he has to stick by what he says a Fed staffer.

ɛdibility is the problem. Wall Street ɛed that the budget summit pact could attain something close to the specified levels of tax hikes and spending cuts. The new scheme, while not very different in substance, gives more flexibility to congressional committees, which have never been eager to bite the lobbies that feed them. "Once that package goes to the committees, that's the end of it. It'll be watered down to nothing," grumbles Michael J. Moran, chief economist for Daiwa Securities America Inc.

The collapse of the original budget pact came at a terrible time for bond traders. The yield on the Treasury's bellwether 30-year bond had fallen from 9.17% to 8.78% over the two previous weeks, thanks to budget euphoria and a temporary lull in the Treasury's bond sales. The budget gloom reminded traders of other bad news: menacing reports due on wholesale prices and retail sales and a calendar flush with $36 billion in new Treasury and thrift-bailout issues by Oct. 24. In a daylong rout on Oct. 9, dealers pushed the 30-year bond down by $17.50 for every $1,000 in face value, raising its yield to 8.96%.

The anemic dollar didn't help matters. Interest rates in Japan and Germany are close to those in the U. S.—and inflation and profit outlooks are far brighter in both countries. The dollar, quietly sliding since summer, set record lows against the Deutschemark and slipped to 129 yen as foreigners registered what Salomon Brothers Inc. international bond analyst Nicholas P. Sargen calls "budget disgust" (page 30). The markets' biggest fear is that Japanese and European investors will stay away when the Treasury brings a staggering $33 billion or more in notes and bonds to market in November.

The mix of a falling dollar with rising long-term rates could throw the U. S. economy into a "hard landing" combining a currency crisis, recession, and inflation. Throughout the dollar drop of the mid-1980s, economic pundits warned that Washington's profligate budget policy could crunch the economy. The stock-market crash of October, 1987, nearly proved them right. The budget crisis of October, 1990, could finally do the trick.

If so, cutting rates can only accelerate the decline of the dollar. Worse, Greenspan has no guarantee that Fed efforts to push down short-term rates would give consumers and business borrowers the lower long-term rates they need.

For months, the Bush Administration and Congress have pleaded for easier money. But their budget antics have made it impossible for the Fed to comply. The Fed has lost its ready excuse to ease. Now it may have to sit tight until the economy's weaknesses become far more serious than they are now.

By Mike McNamee in Washington, with David Zigas in New York

Fed chief Alan Greenspan prophetically warned that failure to reach a budget agreement would roil the financial markets

TAKEOVERS

NEVER BEFORE HAS UNITED BEEN SO DIVIDED

Renewed warfare with labor could follow the death of the buyout

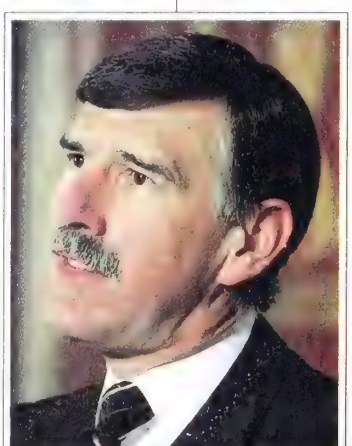
After three years of greed, confusion, broken deals, and dashed dreams, it's back to the future for UAL Corp. The epic United saga may have cost speculators millions, tipped the entire stock market into a free-fall, and tainted the reputations of countless bankers on Wall Street. But the deadlock between Chairman Stephen M. Wolf and UAL's unions is still holding the company hostage. Only now, the unions are madder than ever.

The speculative storm surrounding UAL ended with a whimper. By Oct. 9, when United's board rejected two final offers from the union coalition trying to buy the airline, the decision was a foregone conclusion. The union group—led by former Chrysler Vice-Chairman Gerald Greenwald—had come close. But despite the commitment of four big U. S. banks, money for risky takeovers—especially Japanese capital—had dried up.

FULL CONTROL. United's directors are hardly in the clear, however. Distracted by the turmoil of the past three years, they haven't addressed United's critical business problem: Despite its superior route structure and well-managed operations, labor costs still put it at a disadvantage to archrival American Airlines Inc. To solve that, United needs cooperation from its unions, not a standoff.

It won't help that Wolf has emerged the clear winner. A year ago, he teamed up with the pilots' union to make a $300-a-share bid for the company, but his potential profit of $77 million infuriated the machinists' union. When the pilots joined in another bid with the machinists and flight attendants this spring, they vowed to replace Wolf at all costs. Coniston Partners, the company's largest shareholder, cheered them on. Wolf further alienated the unions when it became known that he had cashed in his stock-appreciation rights for $14 million last spring.

But Wolf is now in full control. A source close to the board says Wolf convinced directors that the union rank and file was not as gung-ho as its leaders to own the airline. Under his team, United could finish modernizing its fleet by placing a $10 billion to $15 billion order for widebody planes. And United's $1 billion cash hoard—which might be eaten up in a takeover—would be better spent on cushioning the blows of a recession or buying the assets of troubled carriers such as Eastern, Pan Am, or TWA. "That's a huge strategic advantage," says a United executive.



WOLF EMERGES THE CLEAR WINNER

Wolf and his management team have some things to crow about. S taking over in 1987, they've gone f No. 2 to No. 1 in the Pacific, laid o solid fleet-modernization plan, revan marketing, and reestablished—at l for now—United's domestic momen Says airline consultant David Treit Simat, Helliesen & Eichner Inc.: "Un is probably the best-positioned airlin the U. S. industry."

'NO TRUST.' A union battle could qui damage that position, though. The line's performance hit the skids in summer of 1989, when pilots and o employees dragged their feet in ange the company's resistance to the bu effort. Now, Wolf may face rene guerrilla warfare. "The rank and won't put out the extra effort for W as they've been doing in the past ye says one union source. "They hav trust for the guy anymore." Wolf clined to be interviewed for this sto

Wolf has extended an olive branc the pilots by offering to let an arbitr help with a new labor pact. But the Line Pilots Assn. isn't likely to down. The pilots haven't had a con in two years and will argue for ret tive pay. If they win parity with a re contract at Delta Air Lines, United' lot payroll could rise by 20%. With huge jump in oil prices and the threa recession, that would be tough for carrier to swallow. "There's no management can give away the stor the salary side," says analyst Mic W. Derchin of County NatWest Se ties USA.

Wolf may have some time to ma ver if rumblings of an investor r abate. While Coniston, with paper lo in the neighborhood of $180 million, it will "explore its options," a so close to the group says it isn't rus to launch a proxy battle.

Still, as Greenwald says, Uni board hasn't solved either the unio the shareholder problems to any satisfaction. "What we have this mi is an unstable si tion," he says. Now up to Wolf. "You ge bor behind United, United walks all this industry," says United executive. can Wolf heal wounds that are th I don't know if he c Given the history o bor relations at Un it's a long shot at

By Michael Oneal Aaron Bernstein in York, with James E. in Chicago

Commentary/by James E. Ellis

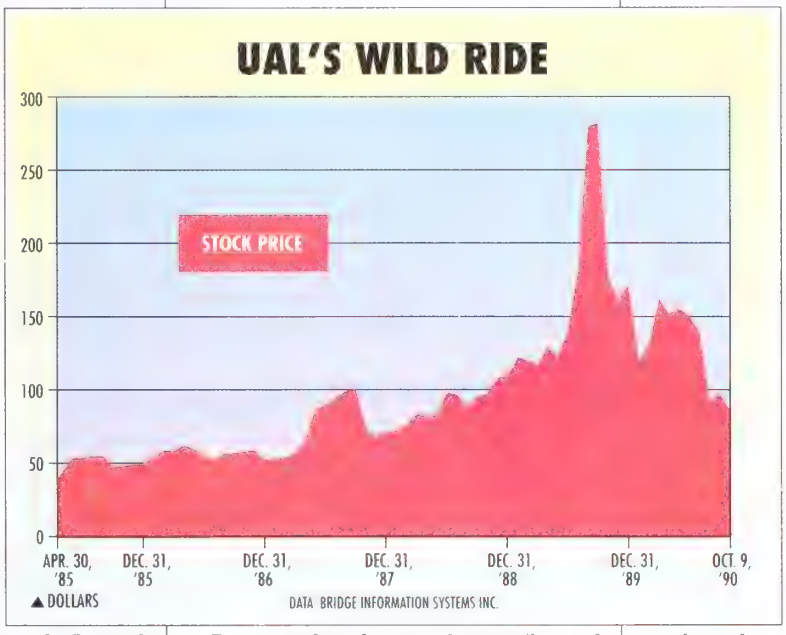
EGO, GREED, AND HOKUM: WHY THE UAL DEAL CRASHED

With the failure of UAL Corp.'s employees to obtain financing for their $4.4 billion ut of the airline holding company, takeover that wouldn't die" may lly have drawn its last, fetid th. But the lesson to be learned the botched deal reaches far be- the airline business. The buy- l-costs frenzy that fueled—and ultely doomed—the UAL deal dracally highlights the vagaries of the s takeover game on Wall Street, o mention the pitfalls for investors kept gambling on s in the '90s. "UAL ved that there's a of inexactness to ing the prices in overs, even for the t shrewd inves- " observes Steven Kaplan, a finance essor at the Univerof Chicago's graduusiness school.

MIST. No joke. If ing else, the UAL cle proves that deining the value of keover-deal stock is lisciplined science an exercise in the f the possible—and etimes in wishful ing. Some of the est-priced invest- -banking talent at non Brothers Inc. and Lazard es & Co. sagely agreed last year UAL was worth $300 a share. A later, the stock lay bloodied at t 90. To be sure, a dearth of fiing for takeovers and fears of reon have helped depress all stocks: Standard & Poor's 500-stock index 15% in the past year. But that's uts compared with UAL's 69% dive over the same stretch.

while proponents of the efficientket hypothesis argue that the stock ket simply updated UAL's valuation ndustry conditions changed and information became available, 's probably a far simpler explana- The original $300 price was unre- c hokum all along, and the subse- t slide in UAL's stock price was ing more than flashy perception g into stark reality.

vestors, the deal's principals, and who were paid handsomely to advise them should have known better from the start. Despite impressive revenue forecasts and heartening cash-flow analyses, the original deal's ambitious projections about ever-soaring growth in traffic and profitability at United had about them the whiff of tulip bulbs all along (BW—Oct. 16, 1989). And the fact that many of those projections were extrapolated from financial results earned at the industry's peak in the late 1980s should have sent red flags flying across United's far-flung route map.



But greed and ego—the co-pilots of so many 1980s takeovers—apparently obscured those warning signs. United's pilots were eager to wrest control of the carrier at almost any cost. United's senior managers weren't averse to pocketing millions of dollars from their participation in the initial buyout offer. The arbitrageurs who quickly crowded UAL's shareholder list were greedy for a quick killing. And the investment bankers, lawyers, and lenders assembling the buyout were hungry for handsome fees.

So the UAL deal took on a life of its own, not because it was worth doing but simply because all the parties involved hungered to have it done. And the value of UAL's shares at various times over the past year has been set not by any intrinsic asset value but by the current checkbook balance of available buyers. A company with a $2.9 billion market value quickly became a $6.7 billion plum deal. That failed. Then a $4.4 billion deal. Then maybe a $3.7 billion deal. Do I hear $2.9 billion?

NO MONEY DOWN. Finally, in a last-ditch effort on Oct. 9, the desperate employee coalition even floated an all-paper offer for the airline. The employees apparently believed that they could pick up the nation's second-largest airline without a nickel of cash—a better bet in the go-go 1980s than in the go-slow 1990s.

Ironically, the simple fact that so many UAL investors didn't see all this coming, as both the economy and banks' appetite for takeover lending cooled, suggests that even Wall Street's "smart" money became easy prey to the crowd mentality of deals, deals, deals. The ranks of UAL shareholders have been crowded with the names of some of America's most celebrated market players, including super-arb Martin D. Sass, T. Boone Pickens' Mesa Limited Partnership, and Coniston Partners, UAL's largest shareholder. But years of market experience didn't stop them from crash-landing along with novice UAL investors. And large public pension funds, including some in New York and California, also rode UAL's stock price to dizzying heights last fall, only to see many of those sweet gains turn sour fast with the stock's plunge (chart).

So where does this leave the market for investing in takeovers? Given the billions in losses they suffered speculating on a UAL buyout, a bunch of investors may not be so quick next time to join the frenzy. And that's good enough: If fear overtakes greed for a spell, then the UAL deal will not have died in vain.

> Lawyers, lenders, bankers, arbs—everyone in on the buyout was hunting a fast buck

ROB ROY E. RA

EARNINGS FORECASTS ARE FALLING FAST—BUT NOT FAST ENOUGH

Overly optimistic analysts have set up investors for nasty surprises

When Shearson Lehman Brothers Inc. analyst Michael Gumport issued an earnings estimate for Motorola Inc. in early September, he was skeptical to a fault. Unlike other electronics-industry analysts, Gumport had growing doubts about Motorola's profit margins. So he cut his projection for the third quarter from $1.12 a share to 95¢—well below the consensus estimate of $1.04 a share. On Oct. 9, Motorola announced its earnings—and Gumport learned that he hadn't been skeptical enough.

The company reported third-quarter profits of 78¢ a share. That was a 13% increase from the year before—but it was still beneath the predictions of analysts even more pessimistic than Gumport. "There was really nothing to indicate that things would be this bad," says Thomas Van Buskirk of Value Line Securities Inc. Investors reacted furiously, calling in so many sell orders that the start of trading in Motorola was delayed for 40 minutes. By the end of the day, Motorola was the most active stock on the New York Stock Exchange—diving seven points, to 52¾.

Motorola had fallen victim to an increasingly widespread malady: the negative earnings surprise. Analysts are growing steadily more dour in their projections of earnings—but often not downbeat enough. As a result, negative surprises are contributing to the market malaise that began with Iraq's invasion of Kuwait on Aug. 2. If earnings remain dampened by rising oil prices and a weakening economy, stocks will feel even greater pressure—especially in industries where the outlook is bleakest (table). "The market has been reacting badly to earnings news in the past several quarters, and the earnings picture is getting cloudier," notes Melissa R. Brown, chief of quantitative research at Prudential-Bache Securities Inc.

The market doesn't expect those clouds to lift any time soon. That's evident from the compilations of analyst estimates prepared by Zacks Investment Research and the Institutional Brokerage Estimate Service. Brokerage-house analysts are notoriously upbeat in their estimates of corporate earnings—but the Zacks and IBES figures show that they are being forced to cut their estimates at an accelerating rate. One forbidding omen: According to Zacks, analyst-estimate reductions during September outnumbered increases by a 4-to-1 margin. "It looks about as bleak as it could be," says Executive Vice-President Benjamin Zacks. "Estimate downgrades are at a level not seen since the recession in 1981."

Despite the large proportion of d grades, even more negative earn surprises may be in the works. T because, as the Motorola experience cates, analysts frequently don't g enough when they lower their estim Indeed, the earnings picture being p ed by analysts is still more dreary fearsome. Overall, the analysts foll by IBES have cut back their estimate the issues in the Standard & Poor's stock index by just 2.6% since mid-

But even with their positive bias, lysts are predicting continued earn troubles for many U. S. busines These range from such troubled se as airlines and banks to cyclicals even oil-and-gas drillers. Analysts even souring on once-hot stocks suc Toys 'R' Us, which dropped 8% on 10 after an analyst cut her earnings jection for the company.

AIR CRASH. The airlines, hurt by ri fuel prices, have seen their analyst mates cut the most in recent mon The IBES earnings figures for the se are being pulled down by USAir G Inc., whose expected 1990 loss has ened from $1.19 a share in mid-July recent projection of $5.16 a share. lysts have also sha cut back their estim for AMR Corp., the ent of American lines, and UAL C which owns United lines (page 32). mining stocks, such Phelps Dodge Corp. Asarco Inc., have their earnings estim upgraded appreciab 10%—as a result of surge in metals pric

Such numbers a guide to analysts' rent perceptions, it's the future earn realities that cou and that's where th ement of surp comes into play. IBES figures, comp before the Motorola broglio, show that e ings estimates for company declined 3.4% over the past t months—far less the estimate cuts dured by other semi ductor companies. as it turned out, was the problem.

By Gary Weiss in York

WHERE EARNINGS ESTIMATES ARE PLUMMETING

Stock group/Stock with largest downward revision in 1990 earnings*	Average change in earnings estimates for 1990*	Stock group/Stock with largest downward revision in 1990 earnings*	Average change in earnings estimates for 1990*
AIRLINES	**–99.8%**	**AUTO AFTERMARKET**	**–12.1%**
USAir Group	–333.9	Goodyear Tire	–37.4
MACHINE TOOLS	**–47.5**	**SEMICONDUCTORS**	**–12.0**
Cross & Trecker	–81.2	Advanced Micro Devices	–125.7
LEISURE TIME	**–42.8**	**CHEMICALS**	**–10.8**
Outboard Marine	–143.7	Quantum Chemicals	–41.8
PUBLISHING	**–23.3**	**MAJOR BANKS**	**–10.0**
Harcourt Brace	–26.6	Bank of Boston	–104.7
MONEY-CENTER BANKS	**–20.8**	**HOTEL/MOTEL**	**–9.4**
Chase Manhattan	–154.3	Promus	–15.3
STEEL	**–19.7**	**HOUSEHOLD FURNISHINGS**	**–8.9**
Armco	–108.8	Fedders	–50.3
HOMEBUILDING	**–16.1**	**OIL & GAS DRILLING**	**–8.4**
U.S. Home	–220.7	Rowan	–40.8
COMPUTER SOFTWARE	**–15.2**	**OFFICE EQUIPMENT**	**–8.3**
Oracle Systems	–46.6	Moore	–14.5
AUTOMOBILES	**–12.8**	**BUILDING MATERIALS**	**–7.9**
Ford Motor	–42.3	Lone Star	–140.0
HEAVY-DUTY TRUCKS & PARTS	**–12.2**	**MANUFACTURED HOUSING**	**–7.4**
Cummins Engine	–108.7	Fleetwood Enterprises	–8.0

*Change in mean earnings estimate from July 19 through Oct. 4
DATA: INSTITUTIONAL BROKERAGE ESTIMATE SYSTEM

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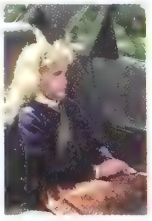

printouts, beyond mechanical specifications, into the realm of human feelings and emotions. It's what makes the 626 feel the way a family car should. Comfortable. Secure. Solid.

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Auto Bild magazine, December 23, 1989.

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STRATEGIES

THE CARDS GET WORSE AND WORSE FOR BALLY

As revenues flatten and debt woes climb, it must beg its lenders for time

BALLY'S CASINO-RESORT IN LAS VEGAS: INCREASED COMPETITION IS EATING INTO PROFITS

Bally Manufacturing Chief Executive Robert E. Mullane doesn't suffer skeptics gladly. Last summer, he denounced two Merrill Lynch & Co. high-yield bond analysts who warned that the debt-laden casino and health club company "must take aggressive financial action to remain solvent throughout 1991." Fumed Mullane: "The report was so wrong. Something smells." He proclaimed Bally's prospects excellent.

Wrong. On Oct. 7, citing a severe cash crunch, Mullane announced he may suspend Bally's quarterly 7.5¢-a-share common stock dividend. The news, combined with widespread concern about Bally's ability to pay $18.4 million in interest due Oct. 15, has driven the stock price below 4 from a summer high of 10. And Bally's bond issues, part of a total debt load of $1.8 billion, trade as low as 18¢ on the dollar. Laments private investor Keith L. Kaiser, a Bally bondholder: "This company is in deep trouble."

IMPERILED PERKS. So deep that New Jersey financier Arthur Goldberg, who holds 5.4% of Bally Manufacturing Corp. and is known as a remorseless cost-slasher, was appointed to the company's board on Oct. 7. He will head a committee to find likely areas to cut, including such executive perks as fat bonuses, the annual overseas board meeting, and a company plane. Says Goldberg: "We'll be reviewing everything."

This crash course in austerity might not have been necessary if Bally hadn't been so enthusiastic about debt in the 1980s. During the decade, the company happily issued junk bonds and mortgage notes to finance acquisitions. Mullane transformed Bally from a stodgy maker of arcade games into a glitzy casino operator with high-profile properties in Las Vegas and Atlantic City. A network of health and tennis clubs was added. Mullane justified the accumulation of debt, which reached 72% of capital in 1988, by predicting that profits would follow an unbroken upward curve.

No dice. Bally's casino revenues remained flat last year at $950 million, while operating income fell 5%, to $142 million. One of Mullane's old nemeses, Merrill Lynch high-yield bond analyst Richard J. Byrne, says operating profits at Bally's two Nevada properties, suf ing from increased competition, will li 10% next year, to $27 million. He s predicts that debt service, includin terest as well as principal payment o maturing borrowings, will jump 23% $80 million. Similarly, Byrne expects erating profits at Bally's health clut fall 24%, to $47 million, while debt vice climbs 150%, to $100 million.

JERSEY BLOCKADE. Bally might h slunk along except for two setba During the second quarter, the fed government told the company it m have to pay more than $140 millio back taxes and penalties because it properly accounted for health club r nues. Then, in mid-September, New sey casino regulators limited Ba ability to use profits generated at Atlantic City properties to pay d elsewhere. Drake Capital Securities bond analyst Jay Lustig estimates B tapped Atlantic City for $150 million year to pay debts at other subsidiar

Now, Mullane, who wouldn't comm for this article, has to come up wit restructuring plan. The company have to slash capital expenditures, w ate up $214 million last year. Already has announced plans to cut spendin $110 million next year. And with m than $225 million in interest paym due next year—and little chance of erating enough cash to meet the obl tions—Mullane has to persuade holders to give him time.

Whether Bally will be able to act s enough to stave off bankruptcy is open question. Shareholders won whether senior executives can stom the cuts necessary to turn the comp around. They may have a point. The cision to eliminate the dividend made at a board meeting in Scotlan

By Kevin Kelly in Chic

STRATEGIES

TISCH AND BUFFETT MAY HELP CHAMPION TURN THE PAGE

Their buying in could push the paper company to manage assets bett

For years, Andrew C. Sigler has battled Wall Street. The CEO of Champion International Corp. has dismissed the concerns of analysts by saying he was taking a long-term view of a business few understand.

Now, though, Wall Street's short-term bias is a secondary worry. On Oct. 5, Laurence A. Tisch's Loews Corp. sought regulatory clearance to buy up to 25% of the paper company's stock. It might appear that Sigler would welcome Tisc interest: Loews's potential holdin along with an 8% stake bought by Or ha investor Warren E. Buffett in Dec ber, 1989, would place 30% or more Champion's voting power in the hands investors known for their patience. Buffett and Tisch both hold mana ment to a dauntingly high standard.

Institutional holders, long frustra by anemic returns at Champion, h

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Tisch and Buffett's presence will force the company to manage its assets better. Says Rama S. Marda, senior analyst and economist for money manager Manning & Napier, one of Champion's largest institutional holders: "That may keep them in line."

Loews isn't commenting on its intentions, and Buffett, Sigler, and other Champion officials declined to be interviewed. But Sigler invoked the company's long-term interest when he bought back 2.8 million shares, or 2.9%, of Champion stock, instituted a cost-cutting program, and invested more than $1.6 billion in modernizing plants since 1988.

MISSED TARGETS. All those moves sound sensible, but their results have failed to match expectations. Champion turned in a 12.6% return on equity in the industry's boom year of 1989, well below Sigler's announced goal of 16%. That mark now looks even further out of reach. Operating earnings, which hit $769 million in 1989, on $5.16 billion in revenues, will slide about 46%, to $410 million, in 1991, forecasts Salomon Brothers Inc. analyst Sherman Chao. Champion, he predicts, will post 1990 net income of $214 million, a 50% drop from a year ago, on revenues of $5.1 billion.

Champion's stock price is equally uninspiring. Champion is selling around 26—about where it was in 1980. No wonder investors beef that Sigler has squandered the good times. When the industry hit its boom in 1988, Sigler ratcheted capital expenditures for 1989 up 147%, to $994 million. As a result of that spending and the stock buyback, long-term liabilities increased 16%, to $12.5 billion, in 1989. Meanwhile, other paper companies used the cash generated in the boom to pay down debt.

The capacity Champion added is now coming on line—while the industry's fortunes have already turned. One expensive monument to poor timing is a $350 million Champion coated-paper machine that begins operation this fall. So do four others at rival companies. All told, the added capacity should send prices down as much as 11% this year, says George B. Adler, an analyst at Smith Barney, Harris Upham & Co.

The negatives are piling up fast enough to convince some institutional holders that drastic action is needed. Tops on the list of expendables: 6.4 million acres of surplus timberland and old mills that could be closed instead of modernized at great cost.

Disgruntled Champion shareholders say that's just prudent planning in an industry facing a downturn. And they're hoping that Larry Tisch and Warren Buffett share that view.

By Todd Vogel in Stamford, Conn.

STRATEGIES

DIAPER PRODUCTION: P&G IS FIGHTING PROPOSALS TO BAN, TAX, OR REGULATE DISPOSABL

TURNING PAMPERS INTO PLANT FOOD?

P&G says it knows just the place for used diapers: The compost hea

To you, the backyard compost pile is just a mound of orange peels, leaves, and grass clippings. But to Procter & Gamble Co., it's a solution to the nation's—and P&G's—growing garbage problem. The consumer-products giant is pushing for industrial composting, a sped-up form of the backyard process that P&G says could handle up to 60% of U. S. municipal solid waste. To back the effort, it will spend $20 million on research and move to develop disposable diapers that break down in such systems entirely into humus. Says P&G Chairman Edwin L. Artzt: "We're hoping this will help people really understand the solid-waste issue and convince them something can be done before we're awash in our own garbage."

Something short of restricting disposable diapers, that is. P&G is coming under increasing fire as the maker of Pampers and Luvs, which represent half of the 16 billion disposables Americans use each year. By holding out composting as a solution, Artzt hopes to encourage the construction of new garbage-handling systems. He also wants to relieve some of "the guilt people feel about using products they think contribute to the solid-waste problem in the environment."

So far, P&G and its rivals are winning the diaper war. Although sales of c diapers are growing, they're still tiny fact, P&G saw 15% growth in worldw diaper sales in the year ended last Ju and the business accounted for 18% its $24 billion in sales. At least four of five American parents continue prefer disposables. P&G has also bea back most of the legislative propos offered in the past year that would ban, or otherwise regulate disposab P&G has relied heavily on the argum that diapers account for just 2% of nicipal solid waste. But Artzt says company realized long ago that it wo have to come up with a better answ

The industrial composting P&G ad cates relies on the same biological deg dation of material as the backyard p cess. First, garbage is sorted to take recyclable materials and inorganic m ter that has to go to a landfill. Th under controlled temperature, moistu and oxygen, the rest turns to compos 3 to 14 days. Before it can be used landscaping or farming, it must cure another 30 to 180 days.

There are now only 10 such plants the U. S. Even if the 150 others un consideration are built, they would handle no more than 1% of the natio waste. But P&G hopes that it can ever

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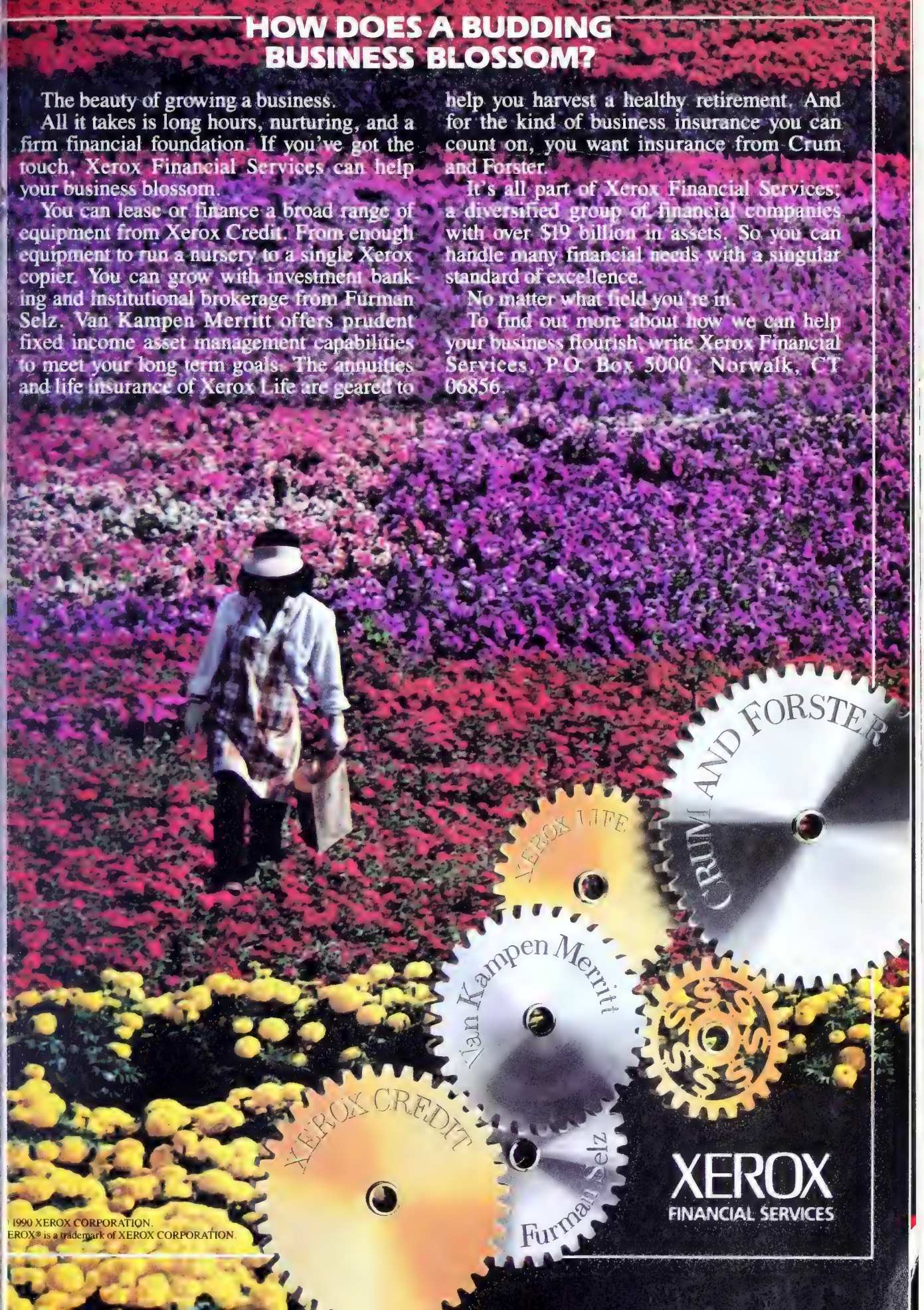

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ally spur local governments to build systems that would compost 30% to 60% of U. S. garbage. Its diapers are already 80% compostable. And next year, it hopes to begin testing diapers in which the plastic back sheets will be replaced by an unspecified material that will break down during composting.

'GOOD STEP.' Most observers see real potential in composting. "I think [P&G's move] is a good step," says Bruce R. Fulford, compost program director for the Tellus Institute in Boston, a nonprofit research firm. But Fulford notes that there's considerable argument over what should be composted. Environmentalists worry that municipalities will skimp on recycling and compost too wide a range of materials, producing a low-value product with few markets. And heavy metals and other toxins can wind up in compost. "The track record of mixed-waste processing systems is not very good," says John F. Ruston of the Environmental Defense Fund. P&G says that its research money will be used in part to answer such questions.

Artzt is confident that the push for composting will succeed because of industry's eagerness to find a solution. As landfill space runs out, local governments are feeling growing pressure, too. Artzt at least knows whereof he speaks: He began a compost pile in his backyard years ago to feed his roses.

By Zachary Schiller in Cincinnati

AUTOS

THE PLANETS MAY BE PERFECTLY ALIGNED FOR SATURN'S LIFT-OFF

GM's new fuel-efficient auto looks like the right car for today's market

If Saturn were a space shuttle, this is one launch NASA might be tempted to scrub. After all, General Motors Corp.'s new small cars face stormy weather when they go on sale on Oct. 25. Fuel prices are turbulent, interest rates remain high, and consumer confidence is in a deep chill. And the car market itself? "It isn't Armageddon, but it sure is Mudville," says Bennett E. Bidwell, chairman of rival Chrysler Motors, a Chrysler Corp. subsidiary.

Despite the ill economic winds, however, Saturn's timing isn't all that bad. The product of a massive, eight-year project to rethink the way cars are designed, built, and sold, Saturn's new sedans and sporty coupes could turn out to be the right cars for the right market. Besides their small size and fuel efficiency, Saturns should get a boost from their low price as well as a launch strategy that will initially confine the rollout to some of the stronger regional economies of the U. S. "I think it's the ideal time to launch Saturn," says Bernard Campbell, an automotive analyst for DRI/McGraw-Hill.

Spiraling gas prices should help a car that gets 27 miles a gallon in the city and 37 on the highway. And GM accountants managed to produce an attractive number of their own—a base price of $7,995. That places Saturn, which is about the size of Toyota Motor Corp.'s compact Corolla, closer in price to the subcompact Toyota Tercel and well below Honda Motor Co.'s Civic (table).

MONEY BACK. Even with air-conditioning, automatic transmission, a good radio-cassette player, and the destination charge, buyers can still drive away for $9,910, a price nearly impossible to find on a similarly equipped Japanese sedan. To overcome the reluctance of car buyers to try a brand-new model that hasn't been tested in the real world, Sa comes with a guarantee: If they ar completely satisfied, initial buyers of 1991 cars can return them for a refund within 30 days or 1,500 mile

Saturn's stated goal is to sell 80% its cars to folks who otherwise w have bought an import. To reach goal, GM slashed its prices well below $10,000 to $12,000 it had long said w be the typical Saturn sticker. "The ing now demonstrates that we're ser about going after the imports," GM P ident Lloyd E. Reuss told Saturn dea gathered in Nashville on Oct. 4.

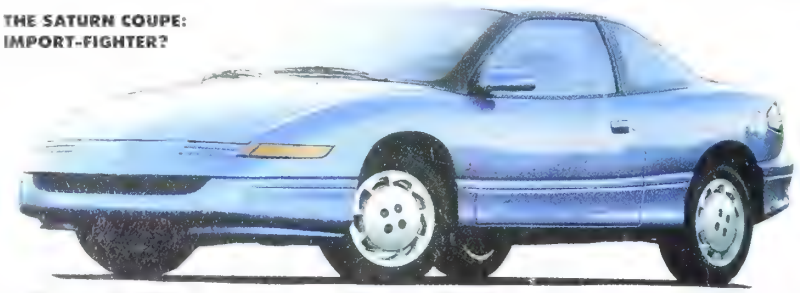
For all its billing as an import-figh Saturn could cannibalize sales from er GM lines. Parts of its styling are r niscent of the Pontiac Firebird and Geo Metro sold by GM's Chevrolet M Div. "There'll be some rub-off. You c stop it," says Chevy General Mana J. C. Perkins. "If shoppers are turne by Saturn, they'll buy Saturn."

LOCAL ELAN. To minimize that risk, urn will begin its attack in im strongholds. Saturns initially go on only in California, Texas, Florida, Tennessee. With the exception of nessee, which may already be in re sion, that marketing rollout happily Saturns into the three fastest-grov regions from 1990 to 1992, accordin DRI/McGraw-Hill forecasts. And eve Tennessee, Saturn should benefit fr home-court advantage: The cars built at a sprawling plant in Spring Tenn. Spring Hill is featured in Sa ads, which don't mention GM. Their line: "A different kind of company different kind of car."

Saturn may be different, but it's alone. Three direct competitors have buted in the past six months alone. Sept. 12, Nissan Motor Co. introduce all-new Sentra. Both Toyota Tercel and Ford Escort have cently been revam and the Honda C now three years ol due for a make next year. Altho Nissan Vice-Presi Robert J. Thomas the onslaught of i pensive cars could s ulate the market drawing buyers from the used-car m ket, a marketing fight almost certa looms. But for now least, all systems go for Saturn's lift

By James B. T in Detroit, with bu reports

THE SATURN COUPE: IMPORT-FIGHTER?



SATURN VS. THE COMPETITION

Car	Base price	Horsepower	Exterior size
TOYOTA TERCEL SEDAN	$7,898	82	161.8 in. x 65.4 in.
SATURN SPORTS SEDAN SL	7,995	85	176.3 in. x 67.6 in.
NISSAN SENTRA E	8,900	110	170.3 in. x 65.5 in.
TOYOTA COROLLA SEDAN	8,998	102	170.3 in. x 65.2 in.
HONDA CIVIC DX	9,490	92	168.8 in. x 66.7 in.

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Unusual times can present unusual opportunities for selective investors. The exceptional companies listed alphabetically below want you to know more about them. Complete the attached coupon for **free** copies of their annual reports. Nearly every actively traded company was screened, using data provided by Standard & Poor's Compustat Services, to determine the high growth companies invited to appear in this listing.

Invited companies ranged in size from a few of the giants of corporate America to emerging growth companies with sales of at least $5 million. All companies were screened for exceptional long-term sales growth, recent growth trends, size and stock price—none under $2.00 per share.

Only 18% of all companies on Compustat's database passed these tests and were eligible to make this free offer of investor information. Thirty of these exceptional companies appear below.

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4. **Biogen, Inc.**
   R & D in AIDS, inflammation and cancers
5. **California Microwave, Inc.**
   electronic communications equip. mfg.
6. **Code-Alarm, Inc.**
   auto & home alarms / security systems
7. **Data Transmission Network Corporation**
   electronic market information service
8. **Dynasty Classics Corporation**
   mfg. / dist. lighting & comfort products
9. **Geodynamics Corporation**
   systems engineering / applications software
10. **The Harper Group, Inc.**
    int'l. transportation / logistics management
11. **Heritage Media Corporation**
    leading in-store mrktg. service co. & TV/Radio
12. **Homeowners Group, Inc.**
    market bus. svcs. to residential realtors
13. **Information Resources, Inc.**
    software & information services
14. **International Mobile Machines**
    digital wireless communications
15. **JWP INC.**
    technical systems and services
16. **The MacNeal-Schwendler Corporation**
    computer-aided-engineering software
17. **Mail Boxes Etc.**
    postal, business and communication services
18. **National Media Corporation**
    direct response marketing
19. **PacifiCare Health Systems, Inc.**
    health benefits company
20. **Parker Hannifin Corporation**
    a partnership in vital technologies
21. **Penn Treaty American Corp.**
    insurance — long-term nursing care
22. **Pharmacy Management Services, Inc.**
    worker's comp managed care/serv/prod/Rx
23. **The Pioneer Group, Inc.**
    investment management / mutual funds
24. **PLM International, Inc.**
    transportation equipment leasing
25. **Polaris Industries Partners L. P.**
    recreational vehicles
26. **Research Industries Corporation**
    specialty devices for open-heart surgery
27. **Seagull Energy Corporation**
    gas production/transmission/distribution
28. **VeriFone, Inc.**
    transaction automation systems
29. **Wahlco Environmental Systems, Inc.**
    air pollution and energy aftermarkets
30. **Western Gas Resources, Inc.**
    natural gas gathering/processing/marketing

Please circle below the number assigned to each company listed on this page whose report you would like to receive. Your request will be forwarded to each company and information mailed promptly. **Deadline for response 12/11/90.**

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16	17	18	19	20	21	22	23	24	25	26	27	28	29	30

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In Business This Week

EDITED BY HARRIS COLLINGWOOD

VISA HAS A HANG-UP ABOUT AT&T's CARD

▶ The bankers who comprise Visa USA aren't too happy with AT&T and its Universal Card. In its first six months of use, the credit card, which also can be used to pay for long-distance calls, has attracted 5 million holders ringing up $1.5 billion in purchases and calls. Visa's members are worried that other nonfinancial companies will imitate AT&T's plastic, which is, after all, a Visa-approved "affinity card."

On Oct. 9, Visa announced new rules for affinity programs that would discourage AT&T copycats. Although claiming no one program prompted the change, Visa even warned that the new rules might apply retroactively to previously issued cards. Such a move, snarls an AT&T spokesman, "would be anticonsumer, anticompetitive, and outrageous."

TUCSON ELECTRIC MAY SEEK RELIEF

▶ In an apparent sign of a liquidity crunch, Tucson Electric Power disclosed in an Oct. 10 regulatory filing that it may resort to Chapter 11 bankruptcy protection. The Arizona utility has spent heavily on unproductive diversifications and plants that generate more power than can be sold. The utility says it's negotiating with its banks to set up a new line of credit. If the financing doesn't come through, or if Tucson Electric can't restructure existing debt, it might not be able to meet its obligations, the company says. In that case, it could file for Chapter 11.

CARTER HAWLEY HALE UNLOADS AN ASSET

▶ The rumors finally came true. Carter Hawley Hale Stores is selling a division. May Department Stores is paying $325 million in cash for CHH's Thalheimer chain, based in Richmond, Va. Thalheimer's is one of CHH's most valuable divisions, with sales of roughly $456 million and $38 million in cash flow.

The Thalheimer sale prompted a rally in CHH junk bonds, which leapt from about 40¢ on the dollar to more than 60¢. That's not surprising, since CHH plans to take the cash from the deal and pay down some $320 million in debt.

THE PILGRIM NUKE: REASSESSING THE RISK

▶ A three-year Massachusetts state study has identified an abnormally high incidence of leukemia from 1978 to 1983 in towns around the Pilgrim nuclear power plant near Plymouth. The report stopped short of linking the cancer rate directly to Pilgrim but suggested a correlation with a period when the plant was emitting relatively high levels of radiation.

The report contradicted a broader study, released last month by the National Cancer Institute, that revealed no link between U. S. nuclear plants and cancer deaths. That study, in fact, showed a lower incidence of cancer deaths than average near Pilgrim since the plant's startup. Massachusetts says its survey was more comprehensive. But a spokesman for Boston Edison, Pilgrim's owner, criticized the limited scope and "specious reasoning" of the state probe and said its own investigation had produced no evidence of higher cancer risk.

PORK-BARREL FUTURES?

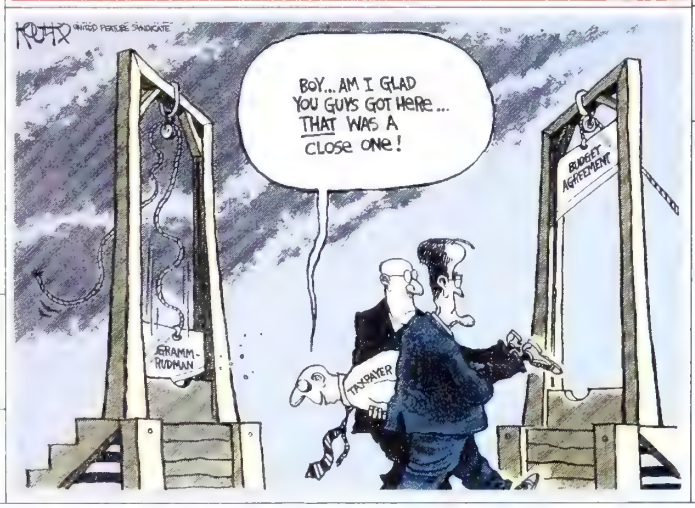
Who needs opinion polls? If you want to divine a candidate's prospects with the voters, just check the action on the University of Iowa's political futures market. The College of Business Administration sponsors the exchange, where students, faculty, and staff can open accounts for $6. The commodities being traded: the election prospects of U. S. Senate candidates in Iowa and Illinois. So far, the market has attracted 199 traders.

Market overseer Professor Robert Forsythe says he aim devise an alternative to polling, and he claims that in 198 market correctly predicted George Bush's 54% to 46% vi over Michael Dukakis. It's probably safe to assume that publican Representative Lynn Martin hopes that was ju fluke: In the Illinois U. S. senate race, she's trading at against incumbent Democrat Paul Simon at $1.11. That t lates into a 55.5% to 44.5% victory for Simon in Novembe

FORD'S NEW CONTRACT COULD STING

▶ Ford Motor's tentative three-year contract reached on Oct. 7 with the United Auto Workers could prove expensive if slumping auto sales pick up. The deal could cost Ford as much as an extra $5 an hour per worker in c time costs, up from $1.2 hour. But right now, it's i evant. Ford's car and truck sales slid 11% in model year ended Sept. and the company is perio ly idling some plants bec of slow demand. Ford do expect 1991 to be any be

The new pact mirrors already agreed to at Ge Motors. Next, the UAW move to Chrysler, where gotiations could get he Chairman Lee Iacocca scheduled a session with bargainers to plead for tract concessions. But u leaders say Chrysler wor shouldn't have to pay management's mistakes.



TRAVELERS' LOSS IS INSURANCE'S LOSS

▶ On Oct. 5, Travelers nounced it expects to rep $500 million third-quarter after taking a $650 millio dition to reserves to c real estate losses. The co ny assured investors in that it had enough reserv cover its real estate expos The news sent insura stocks tumbling, as Street reasoned that Tra ers wasn't the only ins with real estate problems

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EDITED BY STEPHEN H. WILDSTROM

R CABLE, BROADCASTERS, AND THE BELLS, YEAR OF WINNING IN WASHINGTON

iis was supposed to be the year that the cable-television ndustry got its comeuppance on Capitol Hill. Consumers vere outraged at poor service and rising rates. Local- ıment officials were frustrated by the restraints on their to regulate cable fees. And cable operators were divided r response to the threat of reregulation.

, as Congress began its sprint toward adjournment, leg- ı restoring some of the regulatory power that Congress ed from local governments in 1984 the wayside. And killing the cable s only one victory in what was a year prising success in Washington for the ınications industry.

DABLE. Supporters of the cable-TV leg- ı had hoped to take advantage of a etween industry giants Tele-Commu- ns Inc. and Time Warner Inc. TCI, the 's largest cable operator, was flatly ed to any form of reregulation. Time er, which hopes to raise cash by sell- me cable systems (page 82), believed l regulation would produce a more . healthier market. The division had e industry lobby, the National Cable sion Assn., on the sidelines.

COLORADO'S WIRTH: BLOCKING REREGULATION OF CABLE TV

cable bill had passed the House and d headed for approval in the Senate when TCI, based in .do Springs, appealed to Senator Timothy D. Wirth (D- for help. Wirth—who has received large campaign con- ons from cable interests, including $10,000 from TCI's al action committee—obliged. He exercised a senator's ative to block consideration of a bill. Normally, this is y a delaying tactic, but with adjournment looming, it l fatal. A Wirth aide defends the senator's action saying: e is an important part of the Colorado economy. He was d to represent his constituents."

ilarly astute lobbying helped the broadcast industry beat ı Bush Administration proposal to levy a 5% tax on the revenues of commercial broadcasters. At one point, this so-called "spectrum fee" was part of the budget deal worked out by White House and congressional negotiators.

The main opposition to the provision came from the National Association of Broadcasters, which focused its efforts on House Energy & Commerce Committee Chairman John D. Dingell (D-Mich.). Dingell, still smarting at President Bush's veto of a bill reimposing the "fairness doctrine" in broadcasts, objected vehemently to the Administration's proposed fee. The idea was dropped from the budget accord at the last minute. Although the spectrum fee could be revived as congressional committees hash out a new budget plan, Dingell's opposition remains a formidable obstacle.

NO MONOLITH. Telephone companies had their biggest success lobbying the Federal Communications Commission. Months of hard work by the Baby Bells were rewarded in September, when the FCC adopted a plan to ease restrictions on the profits local phone companies earn by giving long-distance operators access to their lines. Now, the FCC will regulate the prices charged for this "local access." The likely effect: Higher profits for the Bells. "If you get one win a year in Washington, you're generally doing very well," says Joel Gross, a telecommunications analyst at Donaldson, Lufkin & Jenrette Inc. "So it has been an above-average year."

The communications industry is no monolith. Cable operators, for example, oppose the Baby Bell's efforts to get into cable. But such squabbles are the exception. "They have been extremely active and forceful in spreading their money around town," says Gene Kimmelman, lobbyist for the Consumer Federation of America. And while some of this year's victories, including cable reregulation, will have to be refought in 1991, the industry has proved it knows how to win.

By Mark Lewyn

AL WRAPUP

D CARE

ıe continuing budget turmoil has loomed a lot of legislation this . But a bill offering the working new federal subsidies for child has gotten a new lease on life. child-care legislation could well up as part of the omnibus bill that be passed to implement this year's tual budget agreement. Child care been hung up for nearly two years fight among House Democrats the precise form that tax credits working parents and grants to s will take. The path to agreement cleared when Senate Finance Com- ee Chairman Lloyd Bentsen (D-Tex.) offered House and Senate conferees a compromise that was accepted by the squabbling House members.

Some major issues still remain to be resolved. The Senate bill provides low-income parents with a tax credit for buying health insurance, while the House version has no similar provision. The House plan phases out the existing child-care tax credit for upper-income parents, while the Senate is more generous to middle-class taxpayers. Still, smoothing out these differences shouldn't pose a major challenge.

The child-care bill has shown an uncanny ability to fail when victory seemed certain, but this could finally be the year it makes it.

HAWAII

Chemical weapons have become a big issue in the Hawaii Senate race between Republican Representative Patricia Saiki and incumbent Democrat Daniel K. Akaka. The candidates have been trying to outdo each other in opposition to Washington's plans to destroy stockpiles of poison gas on Johnson Island, 825 miles southwest of Hawaii. Now, President Bush may give Saiki a boost with an Oct. 26 meeting in Hawaii to discuss chemical-weapons destruction with leaders of Pacific-island nations. Saiki has made her potential clout with a GOP Administration a cornerstone of her Senate campaign.

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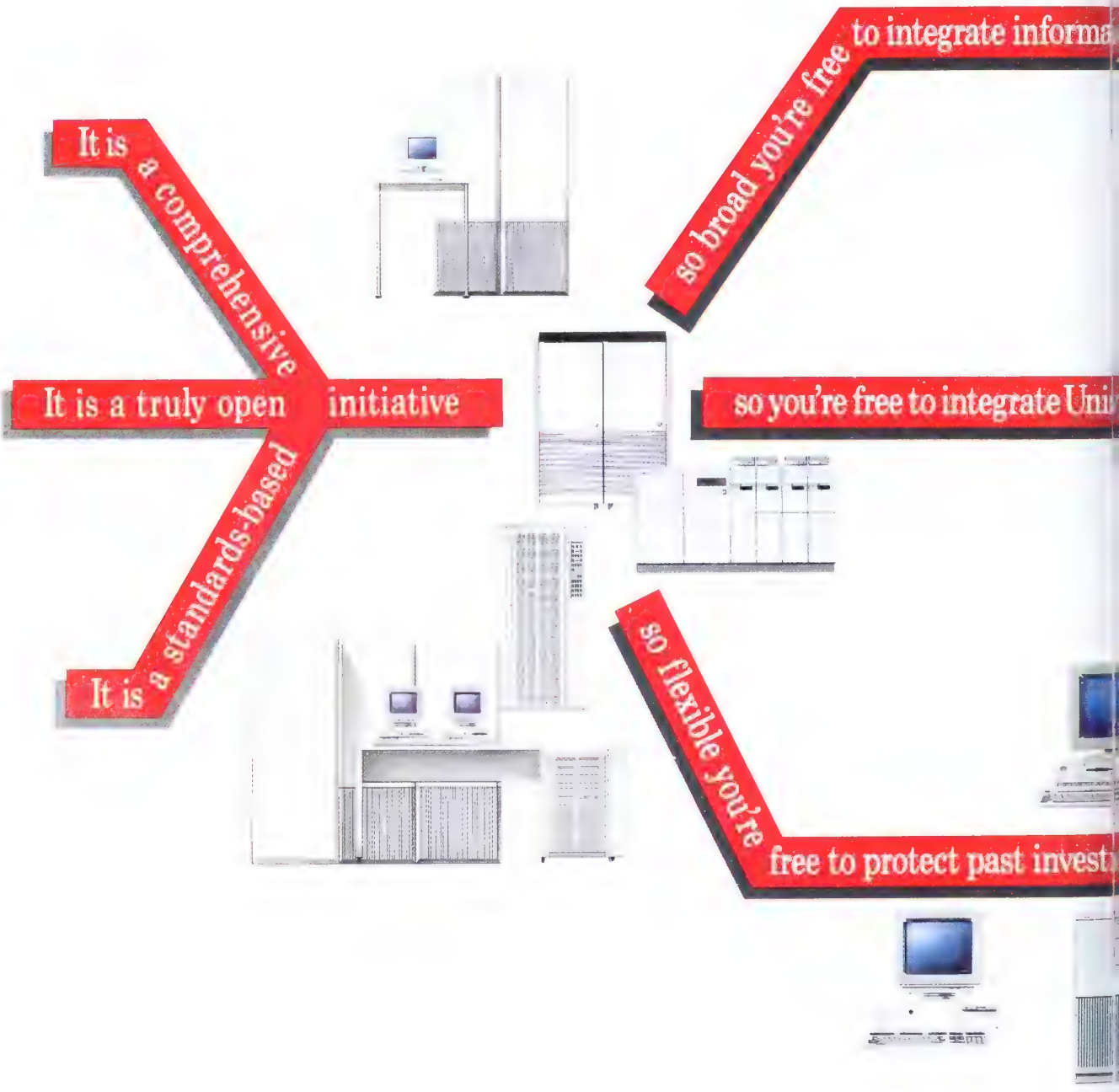

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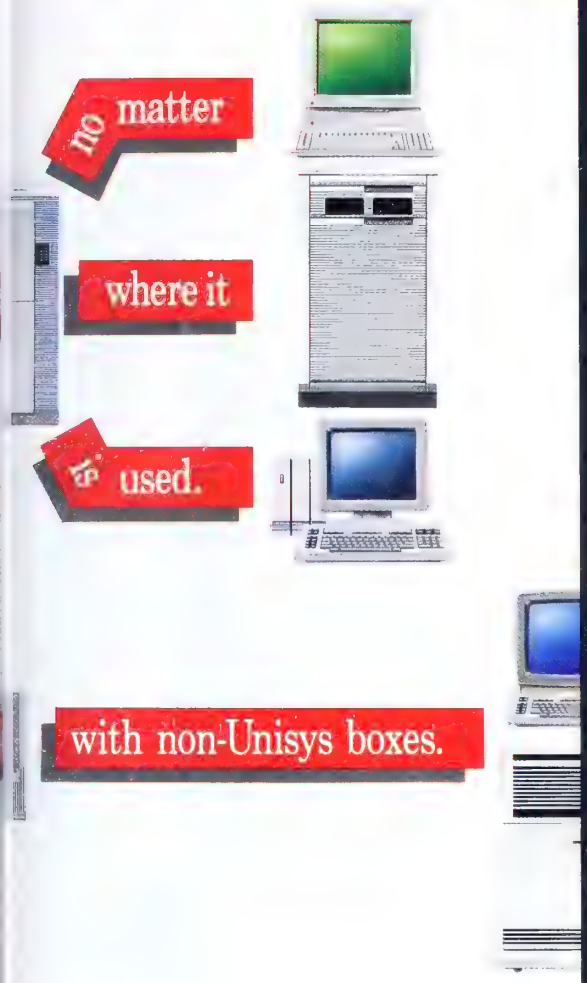

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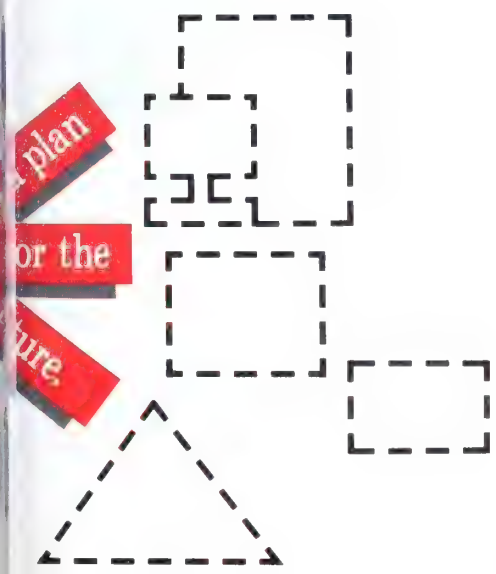

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ANOTHER SLAP IN THE FACE FOR JAPAN'S MARKETS

A loan scandal fells Sumitomo Bank's chairman—and rocks an already gloomy Tokyo

Sunlight was just starting to filter through Masaka Sakao's window early on Sunday, Oct. 7, when a jangling telephone shook him from his sleep. With Sumitomo Bank Ltd. caught up in a scandal over $175 million in illegal loans, the bank's chief spokesman had become inured to reporters phoning at all hours. But this call came directly from President Sotoo Tatsumi. Arrange a press conference immediately for Chairman Ichiro Isoda, Tatsumi barked, and then he hung up.

A few hours later, in front of the crowd of reporters gathered at Sumitomo's Tokyo offices, the 77-year-old Isoda shocked the room—and TV viewers across Japan—by announcing that he was resigning to take responsibility for Sumitomo's role in illegally inducing clients to lend to stock-market speculators. Isoda added that Tatsumi, 67, also offered to quit but instead would stay on to guide the world's third-largest bank, with $370 billion in assets. Said Isoda: "I deeply apologize."

Isoda's resignation is sending shock waves through a financial community already reeling from rising interest rates and a 40% drop in stock prices since Jan. 1. Not since the Recruit insider-trading scandal forced Prime Minister Noboru Takeshita to step down in 1989 has Japan's mounting scrutiny of high-flying financiers claimed such an august figure. As regulators and prosecutors step up efforts to reveal the seamier side of the stock and real estate booms of the 1980s, bankers and brokers are bracing for even more big names in the headlines. One tip-off the heat is intensifying: Bank of Japan Governor Yasushi Mieno has railed against lending to land speculators, and Finance Minister Ryutaro Hashimoto is warning banks to maintain "thorough discipline."

■ "I deeply apologize": Isoda (left) resigns as Sumitomo Bank's chairman. President Tatsumi (right) offered to quit but will stay on

An indication of the get-tough mood in Japan came just one day after Isoda resigned, when tax officials assessed Bank of Tokyo Ltd. $7 million, charging that the bank had hidden nearly $15.4 million in income in 1987 and 1988 by selling stock at a loss in a series of sham transactions. A bank official calls the charge "a difference of perspective." A day later, a Tokyo court found former Nippon Telegraph & Telephone Corp. Chairman Hisashi Shinto, 80, guilty of accepting bribes from Recruit Co. It meted out a $171,000 fine and a two-year suspended jail senter

Several big brokerages have also into trouble. Four firms, includ Daiwa Securities Co. and Yamaichi Se rities Co., recently were fined for pay $123 million to favored clients to c pensate them for losses in the st market plunge.

BAD CREDITS. Isoda's fall stems from incident that also tripped up Daiwa three other brokerages. Several ye ago, allegedly in return for payme and inside information, a Sumito branch manager in Yokohama persu

ome of his customers to lend $175
n to speculators including financier
hiro Kotani, who was plotting a
on an aerial-survey company. The
itself provided some of the cash by
ng $16 million to one customer, who
re-lent it to Kotani.

rhaps nothing would have come of
ni's loans if the Tokyo stock market
't started to fall in January. Unable
pay the loans, Kotani allegedly tried
ise cash by pumping up the price of
l million shares his investor group
d in Fujita Tourist Enterprises Co.,
el chain. By trading the stock back
forth under false names, investiga-
say, Kotani got the stock up 33%.
plan backfired when the Tokyo
Exchange looked into the rise.

tani, a close friend of former Prime
ster Yasuhiro Nakasone—himself
cated in the Recruit affair—was ar-
d and charged with stock manipula-
The branch manager was charged
violating banking laws. And Ko-
brokers were fined and temporar-
losed for trading stocks they be-
d to be artificially inflated.

IO-GO. The Kotani affair isn't the headache for Sumitomo. By lending ily to individuals, small businesses, real estate groups, Osaka-based Su-no became Japan's most profitable , with $1.3 billion in net income in iscal year ended Mar. 31. But with est rates doubling since last year, itomo's real estate loan portfolio may be fraying. About $41 billion, % of Sumitomo's $158 billion in Jap-e loans, have real estate as collater-ast month, the bank stepped in to ie Itoman & Co., a textile trader y owned by Sumitomo that had bor-d $6.5 billion from the bank and rs to develop condominiums and of-buildings at home and in the U. S. an is being forced to dump $2.7 bil-worth of real estate in a soft mar-Already, Japanese developers, in-ng Shuwa Corp., which went on a office-building buying spree in the s, are trying to sell U. S. properties. mitomo's stock-market and real es-woes are a big comedown for an tution that four years ago bought % of Goldman, Sachs & Co. But af-Isoda discovered that U. S. law dn't allow the bank and the securi-house to start joint businesses, the man fired President Koh Komatsu. pite his resignation, Isoda will re-an adviser to Sumitomo and proba-will continue to pull strings behind scenes. But the bank isn't likely to rn to its go-go ways as long as regu-s keep all lenders under scrutiny. 's bad news for anyone who hopes Japanese markets will come back their case of the blues.

By Ted Holden in Tokyo

SOVIET UNION

COMBUSTION ENGINEERING'S DISLOCATED JOINT VENTURE

It's a prime victim of the culture gap in Soviet-Western alliances

Three years ago, Combustion Engineering Inc. proudly announced that it would be one of the first U. S. corporations to heed Mikhail Gorbachev's call and form a pioneering joint venture in the Soviet Union. It plunked down $8 million in cash and equipment for a project to assemble badly needed process controls for Soviet refineries.

But now the venture is threatening to unravel. Heated disputes have flared up with its Soviet partner over money, management, and manufacturing. Combustion Engineering's current owner, Zurich-based ABB Asea Brown Boveri Ltd., is probing the venture's finances and management structure, while the Soviet side has threatened to get rid of ABB and seek new Western partners. Worst of all, the troubles could spill over into another ABB joint venture that CE conceived: a massive $2.2 billion petrochemical project in Tobolsk, a city in Western Siberia's oil fields.

These woes underscore the difficulties many Western companies face as they try to do business in the Soviet Union. Of 1,783 joint ventures now registered, only about 445 have started operations. At least 100 are unprofitable because of the managerial inexperience, problems with the ruble's nonconvertibility, or a lack of materials.

HIGH-HANDED WAYS. But the biggest problem confronting all the ventures is the giant gap between how Soviets and Westerners do business. Under the Soviet system, foreign managers complain, the manufacturer is king, the boss is always right, and the customer should be grateful for whatever he gets. "The cultural differences could take a generation to change," warns Max Asgari, the negotiator of CE's original joint venture and who is now its chairman.

ABB's and Combustion Engineering's problems date back to the founding of the venture, called Applied Engineering Systems (AES), in November, 1987. At that time, Soviet rules on joint ventures strictly limited a foreign partner's control to no more than 49%. A Soviet had to occupy the president's or general director's seat. Even so, CE negotiated the right to name a deputy general director and to participate in major management decisions.

But it didn't quite work out that way. By Soviet tradition, top executives tend to be autocrats. The general director at AES, Vatslav Krotov, a former senior engineer in the Chemical & Oil Refining Ministry, regularly decides matters without consulting other managers, ABB executives say. Krotov habitually overrode recommendations of his American counterpart and launched his own plans to construct a new factory in Nalchik, a resort city in the Caucasus Mountains. When the Americans wanted to build up a sales force, Krotov and other Soviets insisted that the company could win more business through personal contacts. Topping it off, the Soviets didn't keep careful financial records, so ABB has no clear idea of cash flow at the venture, although AES declared a profit last year of $1 million on sales of $75 million.

The American side believes the big-

DAN LABBÉ

gest stumbling block was the requirement that a Soviet run the venture. "The choice of general director is the most important choice you can make," Asgari says. Under Western pressure, the Soviets recently revised their rules to let foreigners head joint ventures. Capitalizing on that change, Asgari convinced his partners in the Tobolsk petrochemical venture, including Finland's Neste, that a Westerner should be general director. Asgari has been appointed to that post and is working to line up about $1 billion in credits from Western commercial and government-backed credit agencies so the construction at Tobolsk can begin next year.

Equally unhappy with the process control venture is ABB's Soviet partner, the Neftekhimavtomatika enterprise of the Soviet Chemical & Oil Refining Ministry. The Soviets claim that ABB has denied them promised high technology. The venture's plant in Nizhnekamsk assembles the controls of one type and the rudimentary parts of a more sophisticated integrated control system. The Soviets assert that instead of allowing the more advanced controls to be manufactured at a lower cost in Nizhnekamsk, ABB is trying to sell its equipment directly to the Soviets to rake in high profits. Complains Stanislav T. Kuzmin, general director of Neftekhimavtomatika: "I am doing business only with people who want to make profits, sign contracts, and have more money." ABB's Asgari retorts that Soviet supply problems make it uneconomical to manufacture higher-tech controls. "The venture must be run as a business," he says.

WOOING HONEYWELL? Already, key Soviet officials are looking for new AES partners. Warns Nikolai Lemaev, who recently resigned as Chemical & Oil Refining Minister: "If there will be a further delay in technology transfer, we will set up a joint venture with another company." Lemaev says he has conducted preliminary talks with Honeywell Inc., which runs its own successful process control venture in the Soviet Union. Further adding to the confusion, Lemaev's ministry is to be broken up as the country's economy shifts from control by central ministries.

For ABB, the big danger is that bad blood will set back the Tobolsk project, called WESPEC. Its Soviet and American managers are essentially the same ones doing battle over AES. While Asgari is WESPEC's general director, Lemaev is chairman of the board. Unless ABB and the Soviets can learn from early mistakes, they will serve as a lesson on how not to put together joint ventures.

By Rose Brady and Rosemarie Boyle in Moscow

BRITAIN

IS THATCHER PLAYING POLITICS WITH THE POUND?

Joining the European Monetary System may hurt more than help

British conglomerate BTR PLC is no slouch when it comes to cost-cutting. But even its tightfisted tactics are no longer enough. "Starting immediately, we will be taking a hell of a lot tougher look at our marginal businesses in Britain," declares Robert F. Faircloth, a BTR executive director in Europe. A similar message is coming from Britain's largest construction-equipment maker, J. C. Bamford Excavators Ltd., where CEO Gilbert Johnston says he is about "to go back to the drawing board to reexamine every aspect of our manufacturing."

Faircloth and Johnston are among many British executives and investors who expect a wrenching readjustment in the economy. The cause: Prime Minister Margaret Thatcher's abrupt decision to put the pound into the Exchange Rate Mechanism of the European Monetary System, dominated by the Deutschemark. British industry must now meet a new standard: the highly productive, low-inflation performance of Germany.

'VERY PAINFUL.' With the pound now pegged to the lofty rate of 2.95 marks, British exporters will be forced to slash costs to stay competitive. That's critical if Britain is to have any chance to reduce its trade deficit, which may run as high as $32 billion this year. Forecasting more plant closings together with low growth, economist David Kern of National Westminster Bank PLC says: "The next five years will be very painful."

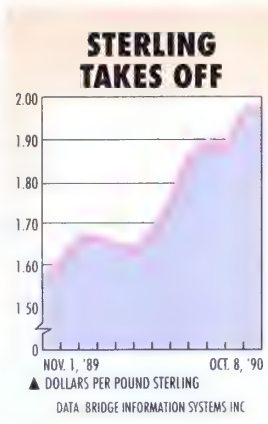
Thatcher's move broke her long-stated pledge to keep Britain from the ERM until the country's inflation rate, now nearly 11%, had fallen closer to the Euro average of 6%. Critics suspect the den change stems from politics. Ind the announcement came just as the bor Party wrapped up its annual co ence and only four days before the servatives began theirs. It ena Thatcher to draw praise from her E pean partners and to start lowerin terest rates domestically without ing the pound's value.

Rates quickly dropped from 15% 14% and are expected to fall even m That's undeniably a boon to British panies teetering on the edge of reces and, equally, to legions of Conserva voting homeowners saddled with mortgage payments.

But Thatcher may have a hidden p to engineer the appearance of an nomic recovery and then call a snap tion before the next shakeout beg The odds are shortening that an elec will be held in June or October of year, ahead of the deadline of July, 1

Her scheme could backfire. The don stock market, after a surge, retr ed when investors realized that the move won't be a quick fix for the ec my. Instead, like France in the 19 Britain may be headed for a long pe of rising unemployment and labor st before the twin ills of high inflation falling productivity are cured. British lations with other EC countries may be strained if those nations are force bolster tottering sterling. In the end, risky move into the ERM could ca Thatcher and Britain's industrial more problems than they bargained

By Richard A. Melcher in Lon



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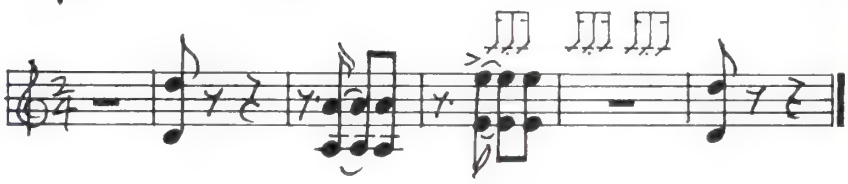

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EDITED BY JOHN PEARSON

AS ISRAEL PLAYED ITO SADDAM'S HANDS?

he Oct. 8 clash between Israeli police and Arabs has dashed Washington's hopes that Israel would keep a low profile during the Persian Gulf crisis. The flare-up may Iraqi President Saddam Hussein the opening he has been ing for to link his confrontation with the U. S. in the gulf srael's occupation of Arab lands. "This is a very important lopment that may break Saddam's isolation," says Moed Sid Ahmed, a leading Egyptian journalist.

ıe bloodshed in Jerusalem puts Washington's Arab allies, by Egypt and Saudi Arabia, in a severe political squeeze use most Arabs sympathize with the stinians. And the killings are a re- ler that pro-American Arab governts have sided with Israel's chief back- the U. S., against a brother Arab ıtry, Iraq. The Jerusalem violence "a deep embarrassment to us," says enior Saudi official. If Palestinians ned the demonstrations to help Sad- shift the focus of the Mideast con- back to Israel, the "Israelis foolishly into the trap," says Mideast expert e Starr.

IN JERUSALEM, A VICTIM IS MOURNED

TO EYE.' To mitigate the damage, the h Administration pushed for a U. N. lution condemning "the excessive Is- response." Such a show of sympathy the Palestinians would be a big help for America's Arab ıds, the Saudi official says. The Saudis regard Iraq as a greater threat than Israel, and the Egyptians want Sad- , a rival for Arab leadership, cut down to size. Thus it ld take severe political pressure on Arab allies of the U. S. reak them away from the coalition confronting Saddam. ptian Ambassador to the U. N. Amr Mousa says Cairo s eye to eye with the Americans" in opposing Iraq.

ıe danger is that the Oct. 8 riot could revive the flagging stinian *intifada* and trigger anti-Israeli and anti-U. S. pro- s in Arab capitals. An ominous sign is the new militance of Israel's Arab citizens, who took to the streets brandishing Iraqi flags. "This will be the test of whether the Arab 'street' really is with Saddam," says Martin Indyk, director of the Washington Institute for Near East Policy. Widespread popular support for Saddam could shake pro-U. S. governments.

For President Bush, the need to hold the gulf alliance together could cause new friction with Israel. Leaders such as Egypt's Hosni Mubarak may now insist that Washington try to revive the stalled Arab-Israeli peace process. But the gulf crisis has hardened Israeli Prime Minister Yitzhak Shamir's skepticism of negotiating with the Arabs.

BROKEN VOW? The violence will also focus attention on the $400 million in loan guarantees the U. S. recently gave Israel. Secretary of State James A. Baker III said he had assurances that the money would not be used to settle Soviet Jews in the occupied lands. But Shamir on Oct. 8 announced plans for expansion of a Jewish neighborhood in Arab East Jerusalem, which the U. S. does not recognize as part of Israel. Saddam Hussein and his supporters are likely to claim that American money is settling Israelis on Arab lands.

Signs of a fraying alliance could increase the chances for war. The Saudis and Kuwaitis, worried that Saddam will escape with his military machine intact, are privately urging the U. S. to attack. But hasty action could lose the support of European allies, the Soviets, and the Egyptians and Syrians. "The idea of let's dive in and get it over with risks splitting the alliance instantly," warns Sir John Wilton, a former British Ambassador to Saudi Arabia. But Bush could see little alternative to a quick strike if the region's conflicting forces seem to be sundering the coalition.

By Stanley Reed in New York, with Amy Borrus in Washington, Neal Sandler in Jerusalem, and John Rossant in Rome

BAL WRAPUP

GENTINA

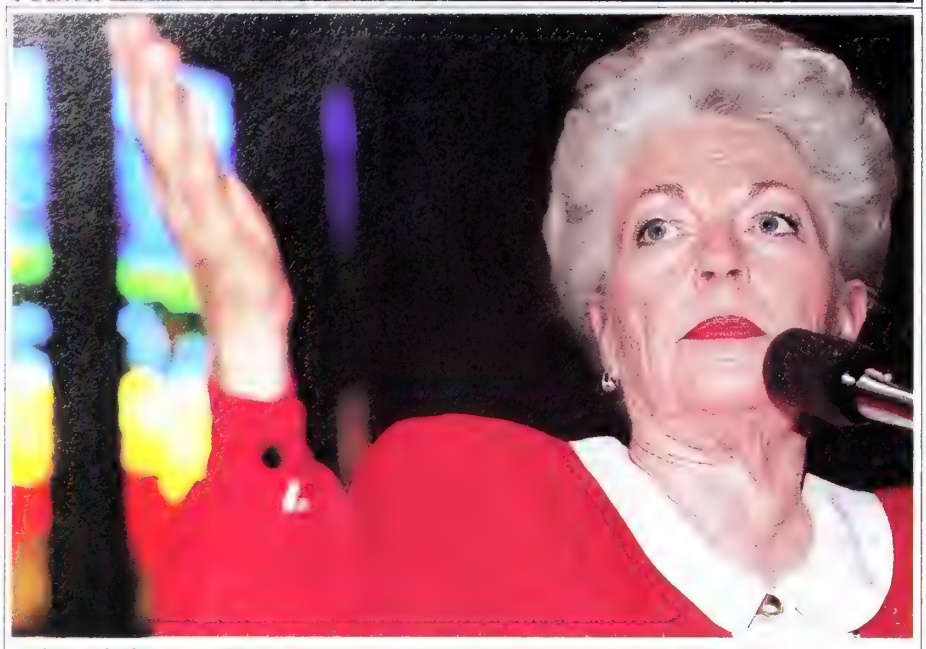
resident Carlos Menem's sweeping program to privatize state-run npanies has been set back by a de- in his effort to sell off Entelnor l Entelsur, the two halves of Argena's national telephone system. Manıcturers Hanover Trust Co., the der of a group including Bell Atlan- Corp. as operator, won last June's lding to privatize Entelnor but ssed the Oct. 8 deadline for complet- the deal. Manny Hanny failed to semble a syndicate of foreign bank editors to swap $2.3 billion worth of gentine debt as partial payment for 60% stake in the venture. Manny Hanny complained that local partners held up the deal, but other bankers say it was charging too much for its role in lining up the syndicate. Now a consortium led by J. P. Morgan & Co., the runner-up in the June bidding for Entelnor, will try to privatize the company by Nov. 8, with France Cable & Radio and Italy's STET as operators. If the sell-off fails, it would deal a blow to Menem's free-market reforms.

The Entelnor delay in turn has postponed privatization of Entelsur by a consortium led by Citicorp, with Spain's Telefónica as operator. Citicorp says it is ready to complete its half of the privatization whenever Entelnor is sold off.

SOUTH AFRICA

While violence racks many townships, a breakthrough in labor relations may point to a more peaceful future. In mid-October, the government, employers' confederations, and the two largest mainly black labor confederations agreed to sweeping labor-law changes. The accord removes an antistrike clause and other labor curbs. In return, the militant unions will participate in a manpower advisory group that includes employers and conservative unions. The agreement among formerly bitter foes is seen as a good omen for coming political talks on a new South African constitution.

POLITICS



RICHARDS FOUGHT A BRUTAL PRIMARY THAT DRAINED HER OF ENERGY AND FUNDS

ANN RICHARDS IS SINKING IN TEXAS MUD

Cash problems and the 'L' word are plaguing her bid for governor

A little over two years ago, a striking silver-haired woman roused the Democratic National Convention with a keynote address that became the stuff of political legend. In a lilting drawl, Texas Treasurer Ann Richards spun a soaring vision of the Democratic dream—one that some delegates found more moving than the message delivered three nights later by nominee Michael Dukakis. Richards reduced George Bush to a pitiable pretender in short pants when she chided: "Poor George. He can't help it. He was born with a silver foot in his mouth."

"The speech" made Richards an instant celebrity and odds-on favorite to become the first woman elected governor of Texas since 1932. But that now seems like a distant memory as a weary Richards, trailing in her contest with Republican Clayton Williams, strides into a San Antonio reception to be greeted by a sparse group of mostly black and Hispanic supporters. Recalling the civil rights struggle, Richards vows to make government hiring "reflect the population of the state." Then a preacher produces a fishbowl and asks for donations for the cash-starved campaign. "Step forward, brothers and sisters, and be blessed," he urges. Only a handful take heed.

These days, a Richards drive that began with bright promise is struggling. Richards, 57, is rushing from Baptist churches in Houston's black ghetto to pep talks with realtors in San Antonio, frantically trying to shore up her base of support. A few weeks ago, she trailed by 15 points in one major poll. Analysts say she may have narrowed the gap to just under 10. But time is growing sh "Williams still has a comfortable le says Richard Murray, a political scier at the University of Houston. "Unles makes a major mistake, it's going t tough for her to win."

Williams is perfectly capable of su blunder. His penchant for taste quips is considered the only chink in armadillo armor. He has angered wo by joking about rape, threatening hog-tie Richards like a rodeo heifer, boasting of his youthful adventure bawdy houses. The gaffes have h but not enough.

COW-RISMA. Indeed, the nastiness of campaign has stunted voter inte making money scarce. That's an a problem, since Richards is battling exuberant millionaire who approa the contest with the zest of a shop spree at Neiman-Marcus. Williams spent some $6 million of his own for so far and will spend far more by l tion Day. "We have enough mone beat him," says Richards spokesman Cryer. "Nonsense," says GOP strate Karl Rove. "She's broke."

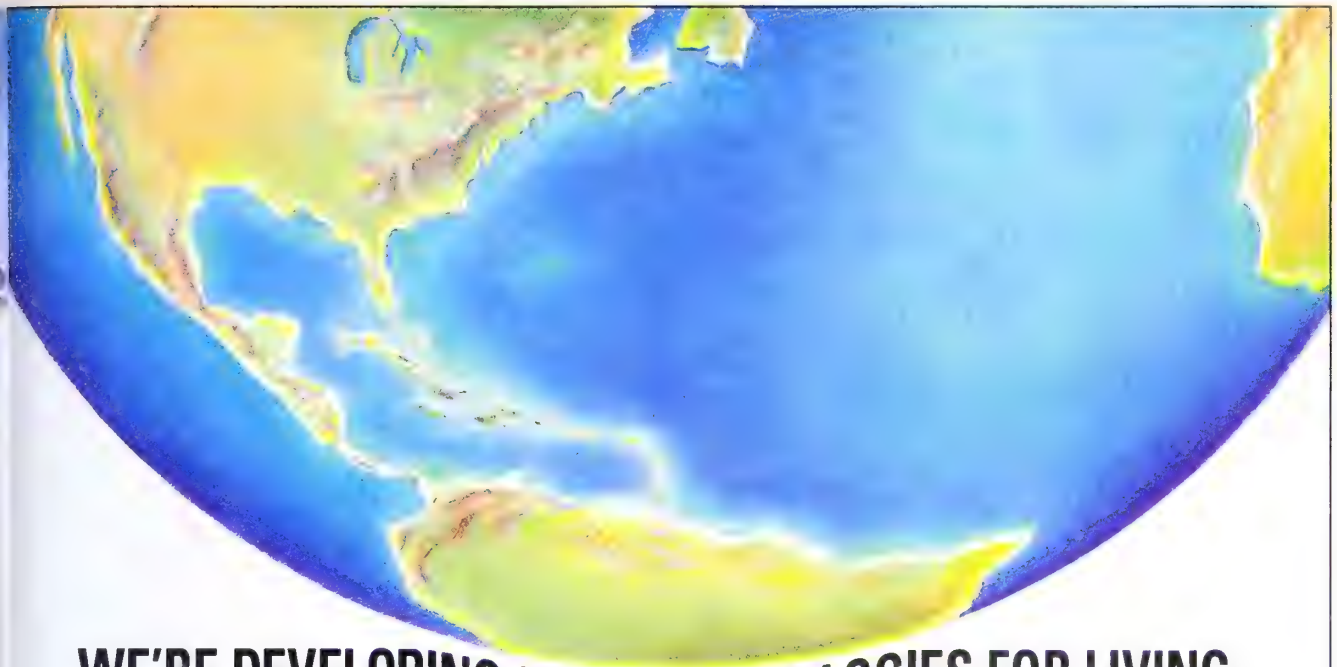
Richards also has been damaged Williams' cultivated cowboy mysti Despite his wealth, the Midland oil and rancher has run a populist camp that rails against liberals in Austin promises to put youthful drug offen in boot camps where they can "disc the joys of bustin' rocks." Says Au political consultant Mark McKin "The Republicans have never ha 'Bubba' before. Now they've got or

Just as important has been Willi promise to put his wildcatting spir work to revive the economy. " make Texas great again," his omni ent TV ads trumpet. And in huge bers, rural Democrats have respon "He's getting about one-quarter of ocrats, she's pulling only 10% of Re cans," notes pollster Murray. "T disastrous."

How did veteran pol Richards get this fix, especially since she' against a blustering greenhr Mostly, she had the grave m tune to encounter State Attc General Jim Mattox in the D cratic primary. A fierce battler revels in his "Mad Dog" in Mattox began to hit former alc ic Richards with charges of use. Dukakis-like, Richards t the other cheek, then fumbled trously in a Democratic de when she stonewalled Mattox' tions on the drug issue.

Eventually, voters grew a over the attacks, and Rich sailed to a big primary win. Bu

WILLIAMS: A MILLIONAIRE WITH POPULIST APPEAL



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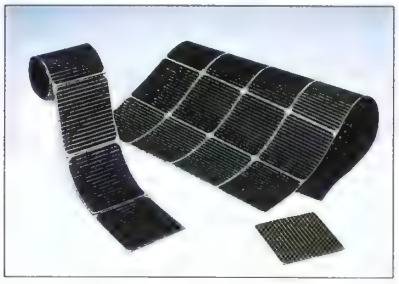

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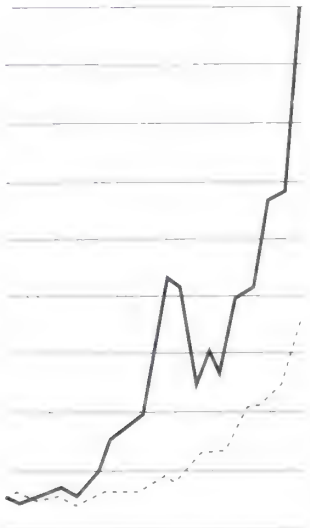

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was exhausted, her campaign was ou money, and her negative ratings soared. Williams, by contrast, rom through the GOP primary.

Instead of springing back into fray, Richards hesitated, and her c paign staff feuded during the summ Her initial pitch made vague promise improve the state's troubled educa system and featured a gauzy, ill-defi appeal to a "New Texas."

DOVE HUNT. Meantime, the GOP spent on tough ads depicting her as a Duka clone. East and West Texas have b blanketed with radio spots and fly claiming that Richards wants to re antisodomy laws, might favor gun c trol, is backed by death row inmates the Gay & Lesbian Caucus, and has cepted campaign contributions from likes of "left-wing Hollywood liber such as Jane Fonda. When Richa tried to curry support with the goo boys by going on a dove hunt, Willi forces gleefully issued a release com ing the stunt to Dukakis' infamous aboard a tank. "She's more liberal t Dukakis," Williams said in an interv

> Williams paints Richards as the candidate of death row inmates and 'left-wing Hollywood libera

in which he defended his tactics won't back down on that a bit."

In the final weeks of the race, R ards seems to have found her voic last. She's blasting Williams for c tionable lending practices at his Desta National Bank, and she has effective TV spots that vow to clea Texas' anything-goes insurance in try. GOP pols say the appeals have but insist that Richards lacks the and credibility to drive home the sage in one of the nation's most ex sive media markets.

Still, hope is stirring in the Rich camp—which, much like Dukakis' tered Cambridge Mafia, simply concede that Williams' crude app will sway voters. "This fellow peaked," Richards insists, boun along in a van midway through paign stops in Galveston. "Texans not going to pick someone who r sents 1950s thinking." But if perc they do, that would be a cruel i indeed: Ann Richards, for all her would lose to a rough cowboy w silver boot in his mouth.

By Lee Walczak in Galveston

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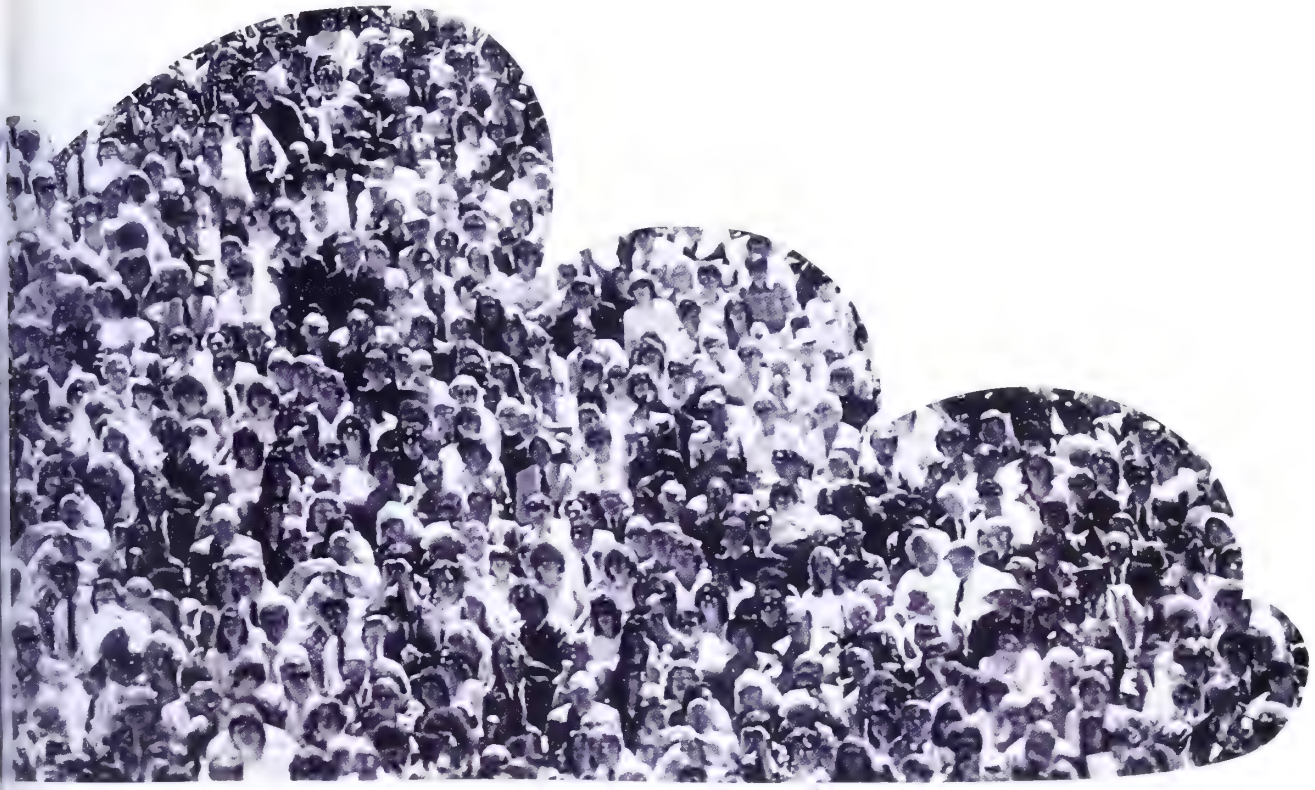

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CAN BARRY GIBBONS PUT THE SIZZLE BACK IN BURGER KING?

He's facing a fast-food glut, boomers worried about nutrition, a teen-labor shortage—and Mac attac

When a grade-school class in San Francisco recently wrote to Burger King Chief Executive Barry J. Gibbons asking him what life was like at the top, he couldn't resist writing back personally. The ebullient CEO responded by drawing a stick figure with a smiling face. The title of his minimalist self-portrait: "A Happy CEO."

If only life in the $77 billion fast-food business were always so sunny. No doubt, Gibbons has a lot to be heartened by these days. Since he took over, following years of management turmoil and the buyout of the chain's parent, Pillsbury Co., by Grand Metropolitan PLC in December, 1988, Burger King Corp. has reversed a disturbing four-year slide in average store sales. Indeed, Gibbons has been storming through the 6,252-outlet chain. He's streamlining its management structure, upgrading operations, rolling out a gaggle of new products, and gambling on a brassy, controversial marketing campaign. He has also tapped rival Domino's Pizza Inc. to distribute its pies through the chain. And overseas, he has even taken Burger King on the road with a mobile restaurant on wheels.

"SOMETIMES YOU'VE GOTTA BREAK THE RULES": ECHOING GIBBONS' STYLE?

SEA CHANGE. Now, more change is in the offing. In mid-October, Gibbons will initiate yet another restructuring. This time, he plans to make Burger King's 940 or so company-owned outlets more accountable. These restaurants will soon have to pay rent and royalties as do the franchisees. Gibbons will eliminate the position of chief operating officer and instead will have two presidents, representing franchisees and company-owned restaurants, reporting directly to him.

Taking these changes together, it's clear that Gibbons is attempting to pull off a cultural sea change at a chain that had grown rigid and unimaginative under Pillsbury. Gibbons hopes to refashion Burger King into a more market-driven chain attuned to changing consumer needs. If he succeeds, Burger King may once again become a feisty rival to the industry's Big Cheese. McDonald's Corp. isn't fretting at the moment, though. "We don't spend too much time looking over our shoulder," says a McDonald's spokesman.

Indeed, Gibbons faces quite an array of challenges. He confronts a glutted market, a teen-labor shortage, and an aging baby-boom popu tion concerned about nu tion. More troubling is wave of guerrilla disco ing tactics by Taco B McDonald's, and others steal share as growth slo in the fast-food mark Burger King has avoi discounting heavily. stead, it uses targeted motions and lower-pri menu items, such as Burger Buddies priced 89¢ a pair.

LEANER. Seems sensil But Burger King alread paying the price for matching the industry's counting frenzy. While gained some moment against McDonald's year, sales have softene recent weeks. Worse, share of the overall f food market has slip during Gibbons' tenure, cording to figures comp by the trade magazine *tion's Restaurant N* (chart). Even so, Gibb says, he's managing for long haul—not for the rent pricing skirm "There's a strong poss ty of a shakeout in the three to four years," Gibbons. "I'm confident will stay a leader."

That certainly wasn't a sure th when Grand Met first came into the ture. After years of misfired marke campaigns and a dearth of new p ucts, Burger King employees and f chisees were a disillusioned bunch. the breach stepped the boyish-loo Gibbons, 43, chairman of Grand M Retailing Ltd. unit. He had doubled operating profits of the division to million for the company. Still, some f chisees were troubled that Gibb didn't have a sesame seed worth of e rience in the fast-food business. hardly mattered to Gibbons. He imm ately moved to make Burger King ir

ERIC MORGAN

er organization, eliminating two lev- of management—or 550 corporate in all.

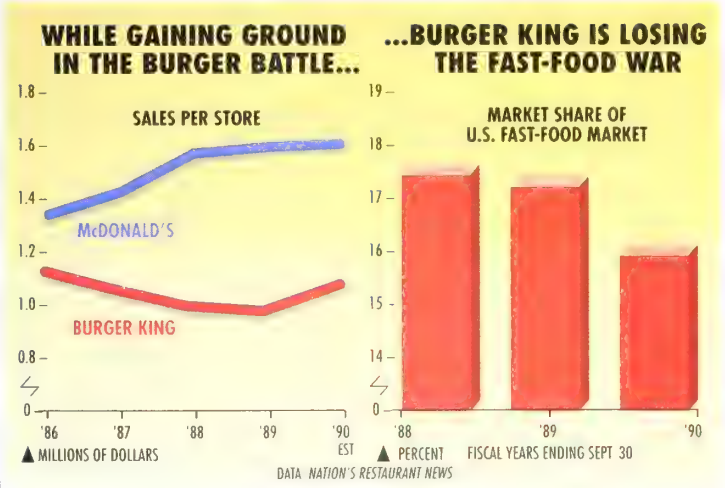
ne far greater challenge, though, has n to instill more risk-taking in those have remained. Under Gibbons, the pany has set up an incentive pro- n for managers that awards bonus ts that can be traded in for such es as jewelry and clock radios. Deci- s once made at the corporate level been pushed down. Restaurant agers now can spend up to $25,000 ieir discretion, as long as they stay in their overall budget.

ons is working might- to improve Burger g's execution at the level as well. He's ding upwards of $25 n on various electronic software systems. ng other things, res- nt managers can now supplies directly, via uter. Meanwhile, he's signing the chain's ens with more auto- d cooking and service tions to compensate declining pool of teen

IO'S EFFECT. Nor is ns afraid to borrow from others. He d ahead with a pro- under development at hain—a toll-free hot- anned by 45 custom- vice agents. Now, 4,000 consumers call ily, frequently com- g about botched or- or cold burgers. The ation is fed into com- terminals, and irate ners are often placat- th coupons. Before, one person fielded ints.

ger King's most visi- n of change has been menu board. Gibbons nched about a dozen new prod- d accelerated existing programs. hain had experimented with a -chicken sandwich on and off 985, but the idea languished un- lsbury. Gibbons' leaner manage- eam pounced on the idea. It took a perfect the sandwich, which is more than 1 million a day. Simi- fter years of testing, the chain in itched over to a 100% vegetable- ula for its french fries. McDon- d Wendy's quickly followed suit. er King also is going outside for jazzing up its menu offerings. s phased out the chain's salad hich proved too costly and diffi- cult to maintain, in favor of pre-packaged salads served with Paul Newman's salad dressing. And in a dramatic departure for fast-food chains, it is test marketing individual-size Domino's pizzas in four South Carolina restaurants. Why Domino's? "Burger King Pizza doesn't sound like an attractive pizza to me," says Gibbons. True. But he's also playing catch-up: McDonald's already is offering pizza in more than 200 restaurants nationwide. While such bold moves are promising, Gibbons has had a few flops during the past year, including Fish Tenders and the Salsa Burger, both of which have been discontinued. The problem: He pushed these products too hard without adequate consumer testing for taste.

BURGER KING TO TRAVEL: A MOBILE RESTAURANT IN DRESDEN



TURTLE POWER. On the marketing front, Gibbons is drawing mixed reviews. He recently raided rival Hardee's Food Systems Inc. for marketing whiz Gary L. Langstaff. And as marketing executive vice-president, Langstaff is credited with snaring such popular promotions as Teenage Mutant Ninja Turtles and the Simpsons. Under Langstaff's direction, Burger King is pursuing the kiddie clientele after long ceding it to Ronald McDonald & Co. Burger King special promotions include a Kids Club, which now boasts some 2.7 million members.

Even so, franchisees still aren't sold on Burger King's saucy "Sometimes You've Gotta Break the Rules" ad campaign. The ads were launched in September, 1989, by Saatchi & Saatchi PLC, together with D'Arcy Masius Benton & Bowles Inc. Some franchisees feel the campaign sends out an inappropriate message for a chain that hopes to position itself as a family restaurant. One franchisee in the Southeast says customers complain the ads send the "wrong message" to kids.

Winning over Burger King franchisees, who own 85% of the restaurants, may be Gibbons' biggest challenge of all. Although most franchisees say relations are improving, Gibbons' breezy manner and new ideas haven't completely healed the wounds from the Pillsbury days. He's taking knocks, for example, for not listening enough to franchisees—a point he readily concedes. But he argues that there has been precious little time for consensus-building.

MORE SAY-SO. Relations aren't likely to improve much as long as Gibbons continues to lean on franchisees to get food quality and store cleanliness up to snuff. Those who don't buy into the program are getting bought out. Burger King has repurchased 175 franchises and closed an additional 131 since January, 1989. At the same time, Gibbons has given franchisees more of a say. He recently recognized an independent and popular franchisee association, in place of a company-sponsored group, as the official representative for the restaurants.

There has been quite a whirlwind at Burger King as the new owners shake things up. And while the chain is still casting around for the right mix of menu and image, Gibbons, for one, remains decidely upbeat. "We've got the general direction," he says. "Our house is in order." In fact, the effusive Gibbons jokes that he's already thinking ahead to his memoirs. The working title is *How To Survive, Prosper, and Enjoy It.* Just how enjoyable his stay will be at Burger King will turn on how successfully Gibbons can return some oomph to a very tired hamburger chain.

By Gail DeGeorge in Miami

GRAPH BY MAUS/PICTURE GROUP; CHART BY LAUREL DAUNAS/BW

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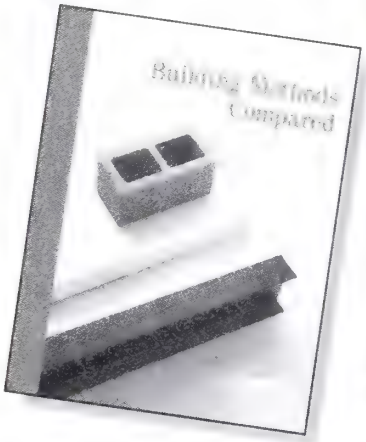

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LARRY, ADRIAN, AND DAVID DE CAUSSIN: GIANT RIVALS ARE EYEING THEIR SMALL-SHOP MARKET

FADAL'S ATTRACTIONS

The company's cheap, bare-bones machine tools are gangbuster

You've probably never heard of Fadal Engineering Co. It's a family-owned manufacturer competing in a field often dismissed as an industrial relic: America's battered machine-tool industry. Yet the Fadal name is turning heads inside Japan's leading machine-tool companies and at large U. S. rivals such as Cincinnati Milacron Inc. The enterprising machinists from California have marched off with nearly 20% of the $400 million market for metalworking machines tailored to the needs of small manufacturers.

In fact, what makes the Fadal tale so remarkable is that the company is prospering in an industry that has been badly weakened in the U. S. by foreign competitors. Led by the Japanese, importers now lay claim to 43% of the $4.9 billion industry and an even higher level in the business Fadal competes in. While countless other small U. S. machine-tool shops have been wiped out, Fadal has thrived with a simple strategy: Turn out low-cost and reliable machine tools, keep overhead lean, and make the customer king. "I give the guy a lot of credit," says John D. Hendrickson, president of Okuma Machinery Inc., the U. S. arm of the giant Japanese toolmaker. And though it now faces a bruising counterattack from the big players, no one is about to write Fadal off.

The North Hollywood company is certainly a family affair. The company's name (pronounced fuh-DAL) was fashioned from the initials of founder Francis de Caussin and his sons Adrian, David, and Larry. Francis, a Detroit machinist, moved his family west in 1[illegible]. And his sons worked on machine tools in the back of their home garage.

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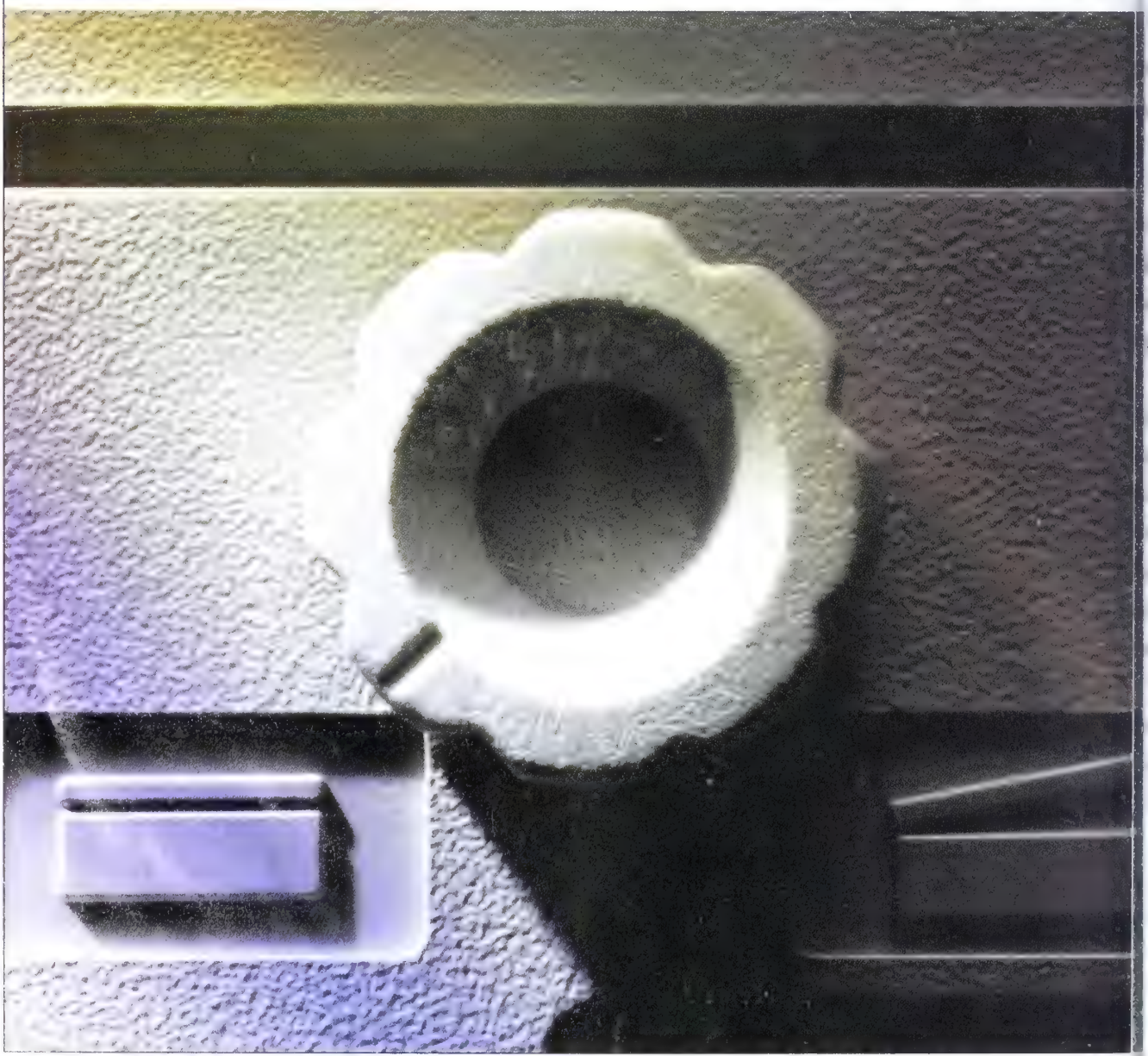

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HOME SHOPPERS KEEP TUNING IN —BUT INVESTORS ARE TURNED OFF

Despite a shakeout and steady sales gains, the once high-flying stocks have plunged

Four years ago, the newly born home-shopping industry was one of Wall Street's shiniest baubles. Investors enamored of the revolutionary concept in retailing sent stocks such as Home Shopping Network Inc. and QVC Network to dizzying heights. Even when prices for HSN, QVC, and other shop-by-TV retailers cooled, believers figured once the weaker players dropped out, the survivors would be winners.

Well, the shakeout has come: Since QVC bought much larger rival CVN Cos. last year, it and HSN dominate the market. J. C. Penney Co., whose "teleshopping" service sells the chain's apparel, is a distant third (chart). But instead of scaling new heights, QVC and HSN shares have just kept sinking. After trading at slightly over 8 in June, HSN has slumped to 4¾. QVC, at 17 last winter, is now at 5¼. Recessionary fears are having an impact, but since the end of August both stocks have fared worse than other retail shares and the Standard & Poor's 500-stock index.

QVC'S WEST CHESTER (PA.) STUDIO: STATIC FROM THE CVN MERGER

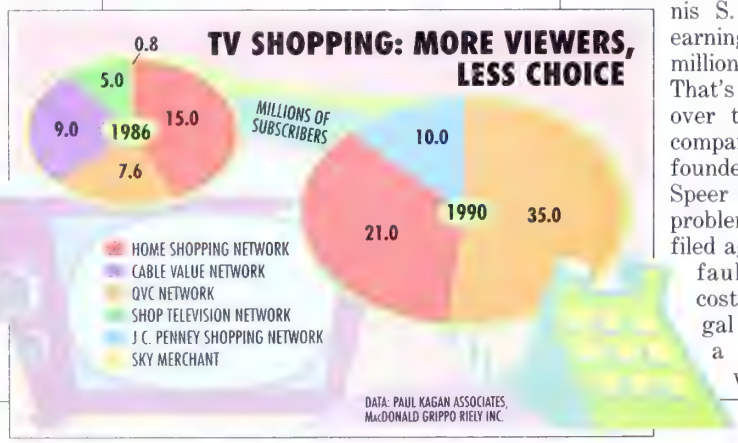
SALES GAINS. What's going on? It's not that people aren't buying. Despite the networks' reputation as purveyors of kitsch, both HSN and QVC are still reporting big annual sales gains as millions of viewers keep ordering jewelry, power tools, and fake furs from their living rooms. Says Richard Weiss, a special-fund portfolio manager at Stein Roe & Farnham Inc., which owns 249,000 shares of QVC: "This is a disparaged concept that refuses to die." And without stores, overhead is low, so there's a strong profit potential.

But the setbacks keep coming. The most recent was QVC's late-September announcement that despite strong gains, it would not reach its stated 1990 sales goal of $900 million. Instead, sales are likely to be $850 million. Worse, a forecast of $11 million in profits from analyst Mark A. Riely of media researcher and consultant MacDonald Grippo Riely Inc. has been revised: He now expects losses approaching $12 million.

QVC's problems stem directly from the CVN merger. It added $377 million in debt while boosting QVC's ble-subscriber list to 35 lion—far more than HSN's million. Trouble is, CVN's mer customers have been s to warm to QVC's selling te nique. CVN specialized in m aggressive, fast-paced hawk of jewelry, collectibles, and er items—a version of the s HSN created. But QVC consid itself a class act: Its hosts p tice a slower, softer sell items that include more nat al brands such as Sears buck's Craftsman tools Sony electronics. Viewers actually liked CVN's fren style haven't responded to as fast as Chairman Joseph Segel had hoped. "People creatures of habit," he s "We've learned that painful

PAY PLANS. Now, QVC is woo CVN customers with direct-r campaigns offering coup and other incentives to shop QVC way. Segel has also ad ed CVN's easy-pay plan credit cards to make telesh ping easier. And he has co CVN's policy of allowing customers order any item anytime. In contrast, customers have only a few minutes order items that have just been pit on the screen. Segel hopes th changes will put QVC back in the bla

At HSN, it's a little tougher to see the stock market is so bearish. Acc ing to Oppenheimer & Co. analyst D nis S. Rosenberg, this ye earnings will rise to about million on sales of $1 bill That's a major improvem over the $15 million loss company posted for 1989, w founder and Chairman Roy Speer wrestled with a host problems. A 1987 lawsuit filed against GTE Corp. alleg faulty service backfi costing HSN $4.5 million i gal fees and damages f a countersuit. Speer wrote off efforts to



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One thing that scares investors ab both HSN and QVC is how they will f in a recession. "The people who from HSN are the type who have or s will have maxed out their credit car says a portfolio manager whose f owns a sizable chunk of HSN st Speer counters that his goods are no expensive that his viewers will decid stop buying them. "We're not Saks F Avenue," he says. Yet the slowing e omy has HSN rethinking plans to is its own credit card.

PRICKLY CHARACTER. Analysts also w der if Speer's management style hurt HSN's long-term strength. His c counsel recently quit. And this summ Speer fired nearly half of the market staff. Meanwhile, F. W. Boyd, the ator of the phone system that autom cally processes HSN viewers' orders suing. Boyd claims he is owed roug $5 million from HSN's agreement to his company in 1987.

Speer seems unruffled: "Some pe I've run off, others have left for pers al reasons. If people didn't think w

Betting on celebrities to ke sales humming, HSN has signed Joan Rivers, while QVC has Farrah Fawcett

they got was enough, then tough.... big concern is that Speer's prickly c acter may work against him when contracts with various cable operat come up for renewal in a few ye Analysts fear HSN might lose contra to Segel, who offers operators gener stock options as an incentive to sign with QVC. If QVC woos away more ca operators, HSN's long-term prospects be badly hurt. Speer says he enjoys g relations with cable operators.

For now, both HSN and QVC are test new formats to boost sales. Both h recently tried celebrity endorsemen QVC signed Joan Rivers and Angie D inson to peddle its costume jewelry the air, while HSN has coralled Far Fawcett and Vanna White. Both n works report millions of additional sa from starstruck homebodies.

The ability of HSN and QVC to gener such quick sales is one of the stro points of the business. The question When will TV shopping hit on a form that makes it as popular with invest as it is with viewers?

By Laura J. Zinn in West Chester, and Antonio N. Fins in Clearwater, Fl

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WILL THE GODS OF SHOW BIZ SMILE ON HARUKI KADOKAWA?

The Japanese mogul is sure *Shogun* will click—but he's crashing Hollywood just for good measur

A Shinto priest chants in ancient Japanese as men and women place olive branches on a tall wooden altar. These are age-old purification rites, practiced for centuries, but this is no ordinary ceremony. The priest is Haruki Kadokawa, co-producer of *Shogun, The Musical,* and he is blessing the production before it premieres in New York on Nov. 1.

Kadokawa stomps his heavy black shoes on the Marquis Theater stage to summon the gods. He stomps again. And again. Finally comes a slight cracking sound from the ceiling, signifying the gods have arrived. Says Hiroshi Sugawara, managing director of Kadokawa's U. S. operations: "It's not easy for the gods in an environment like Manhattan."

KADOKAWA: "FAILURE MAKES ME MORE PASSIONATE TO SUCCEED"

BRECHT WRECK. It may not be so easy for Kadokawa, either. A wealthy celebrity back home, he runs the $300 million-a-year Kadokawa Shoten Publishing Co. and is president of Haruki Kadokawa Films Inc., a star player in Japan's movie industry. Four of the country's 10 top-grossing films of the 1980s were blockbusters produced by Kadokawa. And now the 48-year-old impresario wants to make it big overseas—on Broadway and America's silver screen.

With ambitions like those, he could use a little heavenly help. It's not that Americans have anything against yen-backed Broadway shows. Suntory International Corp. has co-produced two musicals and five plays since 1988, winning four Tony awards. But Kadokawa has had a slower start. His first shot at Broadway, Brecht's *Threepenny Opera* starring the rock star Sting, opened last fall and closed eight weeks later. Reviewer Frank Rich of *The New York Times* labeled it an "inert gray mass." But rather than discourage him, the Brechtian bomb stoked Kadokawa's ambition. "Failure makes me more passionate to succeed," he says.

He has high hopes for *Shogun,* the story of a shipwrecked English sea captain caught up in love and political intrigue in war-torn 17th century Japan. Determined to avoid an encore of last season, Kadokawa offers tips on scenery, costumes, and language—in addition to footing two-thirds of the $6 million tab. Reviews of a recent five-week run at Washington's Kennedy Center were not kind. Along with co-producers James Clavell, who wrote the book, and Broadway veteran Joseph Harris, he's trying to work out the kinks. For one thing, they've slashed some 45 minutes from the show. "We had too much of everything," concedes Clavell. But Kadokawa contends that they pulled in $450,000 weekly against $400,000 in costs in Washington. "Just wait until we to New York," he says with a grin.

Another high-profile Kadokawa f overseas is *Heaven and Earth,* an film of feuding warlords in 16th cen Japan. With a price tag of about million, it's the most expensive Japa film ever made. He directed it him taking a full year to capture the ch ing of the seasons. It will be release the U. S. in December.

Kadokawa, producer of 56 film also turning his len ward Hollywood. year, he set up w owned Kadokawa ductions U. S. Inc. Kadokawa Distribu Co. in Los Angele ter two years of ning. In February bought 60% of dist tor Triton Pictures Kadokawa has projects on tap $100 million-plus in ment. The first o a $15 million fea *Dinosaur.*

CLOSED SET. But a py ending could be to come by. The film industry is t to break into. The m studios have a vi lock on distribu which means that pendent producers as Kadokawa have trouble fin enough theaters show their movies America, the film industry look open—but it's actually very exclus Kadokawa says. He may also face jerk resistance to Japanese money Sony's $3.4 billion acquisition of C bia Pictures and Matsushita's m talks with MCA.

Born into a publishing family, dokawa studied Japanese literatu Kokugakuin University and went the family business. He became dent in 1975, launched his film com the following year, and quickly g

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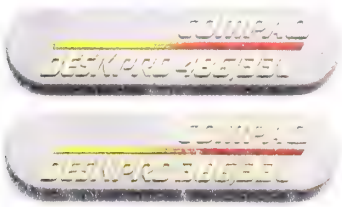

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fame by publishing several popular m[y]steries and turning them into hit mov[ies]. He went on to make a name for him[self] as an award-winning essayist and ha[iku] poet as well. Yoshiko, a college cla[ss]mate, was his first and is now his fou[rth] wife. Their son studies Asian history [at] the University of Southern California.

Stylishly dressed and lithe, Kadoka[wa] speaks in a resonant voice, eyes of[ten] downcast but periodically ignited by [a] flash of a smile. He speaks some [En]glish but not too well. Although he g[en]erally has at least two assistants hov[er]ing around, he is said to have few cl[ose] relationships with employees. Work a[lso] leaves little time for hobbies. But n[ot]

Critics may not think much of Kadokawa as a director but there's no denying his promotional talents

July, he's taking eight months off [for] what could be the adventure of a l[ife]time: sailing from Barcelona to Japan [in] a replica of Columbus' Santa Maria.

ANSWERED PRAYERS. The other main f[o]cus of Kadokawa's life is Shintoi[sm] which he turned to 15 years ago wh[en] he and his crew nearly perished on [a] canoe trip. Shinto gods answered [his] prayers, he says, so he devoted hims[elf] to the Japanese faith honoring nat[ure] and the souls of ancestors. No ascet[ic] he strives equally for the three blessi[ngs] of happiness, riches, and longevity. "[The] best way to be one with the gods is to [do] your best in the real world," he expla[ins].

His trademark is a mass advertis[ing] blitz that hawks both a film and [a] Kadokawa book that goes with it. He often spends as much on promotion [as] on the film. Critics don't think much [of] him as a director, but "I don't th[ink] there's a better producer in Japan," s[ays] Kazuo Kuroi, editor of movie magaz[ine] *Kinema Jumpo*.

Already, he's putting that knack [for] promotion to work in the U.S. To [get] attention to *Shogun* and *Heaven a[nd] Earth*, he recently sponsored two flo[ats] in New York's Columbus Day para[de]. One was a replica of the Santa Maria. [On] the other, men portraying samurai w[ar]riors depicted what would have gree[ted] Columbus had he made it to Asia. S[ays] Kuroi: "Breaking into America isn't [go]ing to be easy, but if anyone can do [it] Haruki Kadokawa can." He may j[ust] have to stomp a little harder.

By Karen Lowry Miller in Tokyo, w[ith] Andrea Rothman in New York

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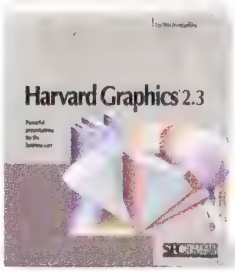

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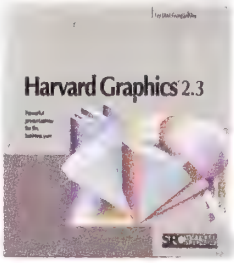

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TIME WARNER: DEBT BURDEN? NO PROBLEM

So management says—but irate investors are pounding the stock

Just ask money manager Michael F. Price about Time Warner Inc.'s sinking stock price, and you'll get an earful. "Does the board feel sorry for the shareholders who are suffering?" asks Price, president of Mutual Series Fund Inc., which holds 1.4 million shares in the media and entertainment giant. He's still steamed that Time spurned a $200-a-share offer last year and instead took on $10.8 billion in debt to buy Warner Communications. But to make matters worse, the combo that investment bankers said could trade in the $133 to $213 range has dropped to around $70 a share. Why? "What's hurting the stock is the uncertainty—the silence—on debt reduction," chides Price. "Where's the plan? It has been a year. Give me a break."

It's easy to see why Price is frustrated. Time Warner managers don't seem to share his sense of urgency. Co-chief Executives Steven J. Ross and N. J. Nicholas Jr. have told operating heads to act as if the debt didn't exist. The duo and their lieutenants insist that Time Warner's cash-gushing operations can easily handle the hefty schedule of interest and dividend payments, with plenty of dough left over for some debt paydown—and even investments. Indeed, rather than whittling debt in the first six months of this year, the company spent an additional $234 million on, among other things, stakes in theme park operator Six Flags Corp., an Australian record club, and the cellular telephone business.

NO PLAN. Fact is, the pressure is on. The financial marketplace has changed dramatically since Time took over Warner. Its 1980s-style debt load is decidedly out of fashion. Investors are clamoring not for cash flow but for corporate profits—something Time Warner won't see until at least 1992.

With strong results in movies and records, the company's operating profits are growing smartly. But it faces a possible crunch by March, 1993, when any bank debt over $6.5 billion is due. That would amount to $2.7 billion based on current borrowings and could climb as high as $4.5 billion if Ross takes full advantage of his bank lines. While free cash flow is expected to steadily rise, it could fall well short of what's due. Analyst Lisbeth Barron of S. G. Warburg estimates the cumulative free cash flow by the deadline will be about $2 billion (chart).

When pressed, Vice-Chairman Gerald M. Levin patiently explains that there is no debt-reduction plan. The only "plan" Time Warner is working on right now, he says, is rounding up some foreign investors for global partnerships. These media and entertainment linkups will span Asia, Europe, and the U. S. One possible "by-product" of such ventures, says Levin, might be cash. "But the plan is not driven by paying down debt," he quickly adds. Ross and Nicholas weren't available for interviews. But Levin is echoing statements they have made in the past.

Of course, Ross, the consummate dealmaker, can't appear as if his backs against the wall. He has been working his "strategic global alliances" since e beginning of the year. Apparently he decided that it's his best shot for scrap up some cash. But as Levin and the r of the Time Warner camp are fond pointing out: "We have a lot of flexi ty." Translation: If push comes to sh the company has a treasure trove of sets it could sell.

Ross & Co. insist that they won't off any core assets. With that in mind nancial analysts have come up with ot scenarios—many of which are being sidered by the company. "We're look at every option," says Geoffrey Holn senior vice-president in charge of inves relations. For one, Time Warner ha portfolio brimming with $2 billion-plu investments, including stakes in Has Atari, and the Franklin Mint. There 50% holdings of media company Whi Communications, record club Colum House, and Cineamerica theaters.

Trouble is, with the economy in dumps and a bear market on Wall Str the timing is off for selling many of th positions. Perhaps the only investm that would command a breathtaking mium right now is an 18% stake in Tur

HOW TIME WARNER'S WORLD HAS CHAN

EXPECTATION: That $10.8 billion in debt won't be a problem. Management says there's plenty of cash flow to start paying down debt and make investments

REALITY: There's not a lot of room to maneuver. Free cash flow will grow nicely, but not enough to cover the crunch in March, 1993, when a big chunk of its $9.2 billion in bank debt comes due

EXPECTATION: Time Warner's investment bankers forecast the stock could trade in the 133 to 213 range in 1990

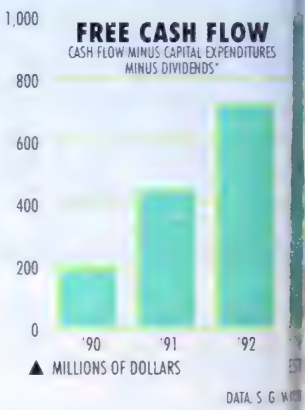
REALITY: It's currently hovering around 70 a share

EXPECTATION: The company would probably sell some of its $1 billion worth of ancillary investments–stakes in Hasbro, Atari–to raise cash

REALITY: Sold a small book unit, but added stakes in theme park operator Six Flags, multi-screen cinemas in Russia, cellular telephones

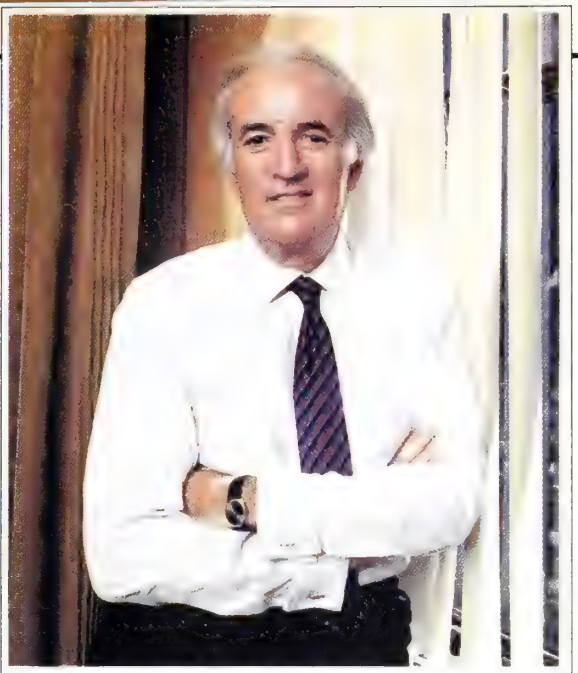
EXPECTATION: Time Warner says it won't sell any of its core assets

REALITY: Management is trying to raise cash from joint ventures in entertainment with foreign investors. If that fails, it may be forced to sell whole units



adcasting System Inc.—but
t folks figure that Ross would
ier sell a member of his family.
e Warner has a right of first re-
il on Cable News Network if
ner ever sells out.
nother scenario has Ross selling
ner Cable Communication Inc.'s
million subscribers to 82%-owned
erican Television & Communica-
s, the country's second-largest
e operator. Time Warner could
load about $3 billion in debt
ATC, explains analyst Dennis
lpine of Oppenheimer & Co. An
simpler approach—and a way
p into ATC's estimated $500 mil-
in annual cash flow—might be
ATC to make a loan to its parent
asy terms or to issue a dividend
areholders, says McAlpine.

BLE OF ARTISTS. As part of Time
ner's exploration of global part-
hips, one option would be to sell
rity interests in the company's film
ecord operations. Time Warner stu-
churn out hit movies such as *Bat-*
i and *Driving Miss Daisy* as well as
popular television shows as *Full*
se and *Murphy Brown.* Its huge sta-
f recording artists includes Madonna
Anita Baker. Time Warner also has
wn distribution networks in the U. S.
fast-growing overseas markets.



ROSS: WORKING ON "GLOBAL ALLIANCES"

Stakes in these businesses, management argues, would command a lofty premium. And Ross claims that he has been besieged by foreign companies eager to make some sort of deal. But a partner has to bring more to the table than cash, he insists—presumably either product or distribution. That narrows the list, especially considering some of the big European media players—Rupert Murdoch, Robert Maxwell—are overextended as well. There's always Germany's cash-rich Bertelsmann, but the company isn't interested in ventures it doesn't control, says Michael Dornemann, head of its U. S. music group. "Warner doesn't give up control," notes First Boston analyst Jessica Reif. "Time bought them, and they didn't give up control."

Japanese companies are likely candidates. Speculation earlier this year was centered on Matsushita Electric Industrial Co. buying into Warner's record business, but the entertainment hardware producer is now trying to buy MCA Inc. Aside from other hardware companies, such as Sanyo Electric Co. or Sharp Corp., the only media and entertainment company large enough to do a deal of any size is Fujisankei Communications, which owns Japan's most popular commercial TV and radio networks, the *Sankei* national newspaper, and the country's leading record and video companies. Fujisankei, with $5 billion in annual sales, hungers for American movies and records. It has put $10 million in David T. Puttnam's Enigma Productions and $150 million in Virgin Records for a 25% share.

ROOM FOR GROWTH. No doubt there are players who covet a piece of Warner's action. But getting a deal done is another thing. "The idea of selling off pieces is clever, and if anyone can do it, Ross can," says Emanuel Gerard, an ex-Warner exec and analyst at research firm Gerard Klauer Mattison & Co. "But it's a hard strategy to execute. And the world out there is not making it any easier."

Time Warner's operating profits are expected to grow at a healthy clip, but all bets are off if the economy worsens. Magazine profits are already slipping because of soft advertising at *People* and *Sports Illustrated* and losses at its struggling *Entertainment Weekly.* While movies are supposedly recession-resistant, the industry has reaped a bigger take at the box office through price hikes, not by attracting more theatergoers. But price resistance may set in. And music sales have been showing signs of cooling off. As for cable, there is still lots of room for growth. Yet the industry is plagued by possible rate re-regulation.

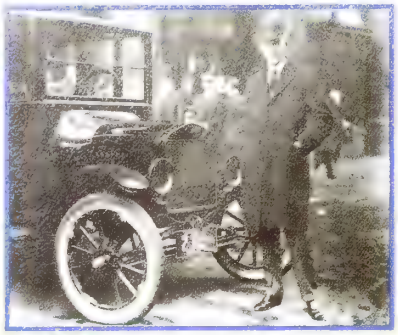
The upshot? Some adventuresome investors might be tempted by Time Warner's bargain-basement stock price. Ross himself recently bought $40 million worth of common and preferred shares. But until Ross does a deal and starts to make a dent in the company's debt, the stock will probably remain in the doghouse. And some big holders such as Michael Price will still be steaming.

By Susan Duffy in New York

ROSS & CO. HAVE TO RAISE CASH—AND THEY HAVE PLENTY OF CHOICE ASSETS THAT COULD BE SOLD

PHOTOGRAPH BY KEN KERRS; STILL LIFES BY DIMICCO/FERRIS (BOTTOM) TRIOLO/HBO

BETTER CARS: THE MILEPOSTS



▲ 1914
MODEL-T First mass-produced car. Nearly indestructible and easily affordable

▲ 1923
DODGE Its enclosed steel (as opposed to wood) body is sturdier, safer

1924
The father of modern quality control, Bell Labs statistician Walter Shewhart, applies statistical tools to reduce defects

▲ 1939
OLDSMOBILE Its first widely available automatic transmission simplifies driving

▼ 1949
VOLKSWAGEN BEETLE arrives. Reliable, affordable, easy on gas, it becomes a talisman for the '60s generation

Cover Story

A NEW ERA FO

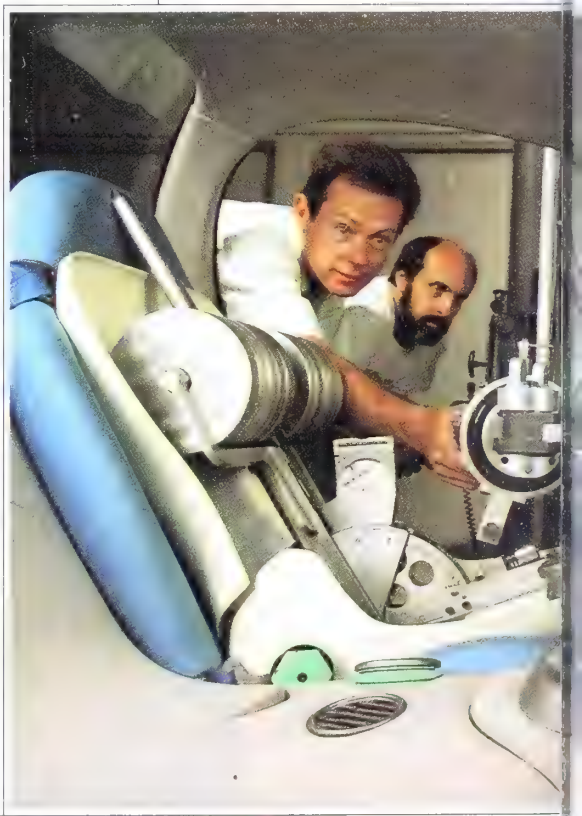
JUST AS DETROIT IS CATCHIN

As a teenager outside Hiroshima in post-World War II Japan, Toshihiko Hirai dreamed of owning one of the low-slung European roadsters that now and then zipped by his home. Hirai went on to develop boxy sedans for Mazda Motor Corp. until 1986—when he talked his way into leading the development team for a ragtop sports car the company had decided to make. It is no coincidence that Mazda's Miata, the car his team created, has a throaty growl somewhere between an MG's and a Bugatti's. Hirai recorded the exhaust sounds of classic sports cars and tried 100-plus combinations before coming up with the one that has helped the Miata's sales exceed Mazda's greatest expectations. "This is the car I've yearned for since childhood," he says.

Uh oh, Detroit, watch out. Once again, something extraordinary is happening in Japan. Just as U. S. carmakers are getting their quality up to par, the Japanese are redefining and expanding the term. The new concept is called *miryokuteki hinshitsu*—making cars that are more than reliable, that fascinate, bewitch, and delight. In plain English, it translates into "things gone right." In either language, it signals a campaign by the Japanese to engineer unprecedented measures of look, sound, and "feel" into everything from family sedans to luxury models, at the same time that they continue to improve reliability. "We've entered the second phase of quality," proclaims Richard D. Recchia, executive vice-president at Mitsubishi Motor Sales of America Inc. "Now, it's the personality of the product that dictates quality."

It is by this measure that Japan plans to hold its lead in qu ty. During the 1980s, Detroit narro the gap dramatically. By 1990, Gen Motors, Ford, and Chrysler had proved from about three times the Ja nese rate of defects—defined as pr lems in a car's first 90 days out of showroom—to only 25% more. On 10, in fact, GM's Cadillac Motor nosed out other U. S. manufacturers win the Commerce Dept.'s Malcolm drige National Quality Award, based a program that is producing better and service. In the next few years, perts think, Detroit could draw e with the Japanese. "We've got to people to wake up to the truth," Ch ler Corp. Chairman Lee A. Iacocca tr peted in recent TV ads. "Our cars every bit as good as the Japanese."

But he's mainly talking rattles glitches. "Any manufacturer can pr duce according to statistics," conte



(TOP TO BOTTOM) PHOTOGRAPHS COURTESY OF HENRY FORD MUSEUM & "GREENFIELD VILLAGE" NATIONAL AUTOMOTIVE HISTORY COLLECTION, DETROIT PUBLIC LIBRARY, OLDSMOBILE HISTORY CENTER, LONG ISLAND AUTOMOTIVE MUSEUM; (CENTER) RICHARDS/SIPA

UTO QUALITY

ERY CONCEPT IS CHANGING

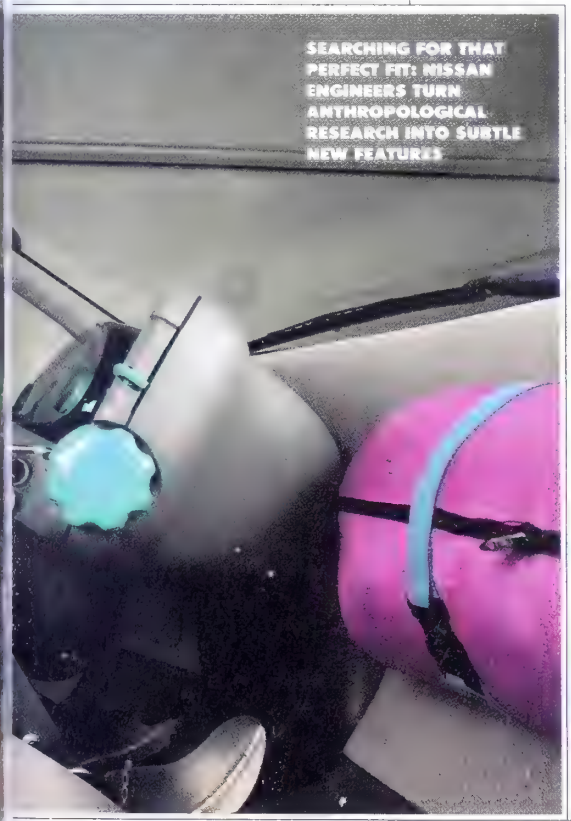
da Chairman Kenichi Yamamoto. In
n, that's now called *atarimae hin-*
su—quality that is "taken for grant-
In a defect-free world, the Japanese
ıe, it is fine touches that will impress
umers. Taken individually, these
rishes may be nearly imperceptible.
the Japanese are betting that the
ulative effect will be dazzling. "It's
ry subtle expression of quality, and
orks almost on the subconscious lev-
says J. Jesse Snyder, an analyst for
Pacific Group in Santa Ana, Calif.

ING NOTES. The most noticeable
ges are in appointments and fea-
s. As a result of customer surveys
alifornia, for instance, Nissan Motor
has improved visibility in its sporty
X and replaced pop-up headlights in
300ZX with less obtrusive ones. As it
ies its mid-'90s models, Nissan has
hired anthropologists to probe into
t makes people buy cars. Meanwhile,
Honda Motor Co. has designed its stereo buttons, door locks, and turn-signal levers to require exactly the same pressure to budge. That gives its cars a comfortable feel—and avoids reactions such as that of a Chrysler owner who wrote, griping that working his turn signal was "akin to breaking a chicken's leg."

Miryokuteki hinshitsu is also leading to basic advances in technology. For example, Nissan smoothed the ride of its new Infiniti Q45 luxury car with the first "active" suspension—without compromising handling. The system's computer-driven hydraulics help cushion jolts and level out the car during quick stops and sharp cornering. Honda's redesigned 1990 Accord has an electronically activated, liquid-filled engine mount that dissipates engine vibration when the car is idling. And Honda's new Acura NSX, a $60,000 speedster aimed at Ferrari, is the first mass-produced car with an aluminum body and suspension, which improve performance by slashing weight.

If these refinements are as appealing as the Japanese expect, the U. S. Big Three, as well as BMW and Daimler-Benz, must respond or lose sales. In the past decade, the Japanese have notched up their U. S. market share 8 points, to 28%, vs. 65% for Detroit and 5% for Europe. They've done so largely by winning some 46% of buyers under age 45, according to J. D. Power & Associates Inc., the California auto researcher. If these buyers stay loyal to the Japanese as they age, Japan's market share will rise. And the new strategy is designed to speed up this trend.

Detroit still thinks it can parry Japan. On fuel



SEARCHING FOR THAT PERFECT FIT: NISSAN ENGINEERS TURN ANTHROPOLOGICAL RESEARCH INTO SUBTLE NEW FEATURES

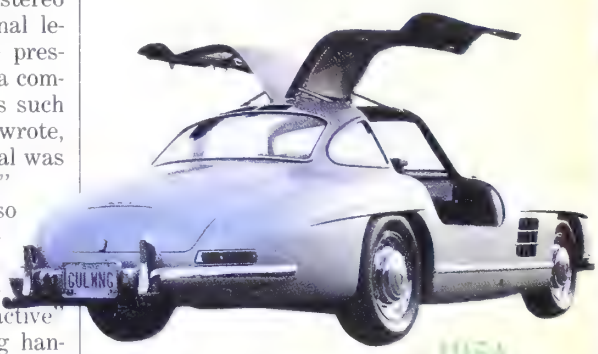
(TOP TO BOTTOM) PHOTOGRAPHS BY SHONNA VALESKA, JOHN L. MATRAS, NATIONAL AUTOMOTIVE HISTORY COLLECTION, DETROIT PUBLIC LIBRARY

◀ 1950

Ignored at home, U.S. consultant W. Edwards Deming lectures 45 top Japanese executives on statistical quality control and becomes a quality guru in Japan

1953

Nissan adopts Deming's methods



▲ 1954

MERCEDES 300SL

Its gasoline fuel injection system increases efficiency and power

▲ 1957

TOYOTA CROWN

The first Japanese import flops because it vibrates severely at highway speeds and is prone to overheating. In 1960, Toyota pulls out of the U.S.

1960

Toyota starts applying Japanese engineering specialist Genichi Taguchi's methods for improving quality at the design stage. Japanese factories initiate quality circles, teaching production workers ways to cut defects

1964

Toyota returns

1965
MUSTANG America goes bonkers over an affordable sports car

1973
Second oil crunch persuades Americans to buy fuel-efficient Japanese and German cars, which they discover are more reliable than U.S. models

1981
Ford launches Q1 program to get suppliers to make better parts. Ford adopts Deming's methods

1984
Ford is the first U.S. carmaker to apply Taguchi's methods

▼ 1986
FORD TAURUS Five years of consumer research produce a world-class sedan. Ford launches research to identify and measure "things gone right" with its vehicles

▼ 1990
TOYOTA LEXUS LS400 Toyota emulates a $47,200 Mercedes Benz luxury sedan—and prices it at $38,000

economy, the Japanese have lost most of their edge as they've gone to bigger cars—important if the Middle East crisis makes mileage a big issue again. On safety, the U. S. leads on features such as air bags, although Japanese companies have plans to catch up. Beyond that, Ford Motor Co.'s Taurus and Chrysler's minivans have proven that Detroit can be adept at reading consumer tastes. "We comprehend what it's going to take to make the customer say, 'Wow!' " says J. T. Battenberg III, vice-president of General Motors Corp.'s Buick, Oldsmobile, Cadillac Group. Getting basic quality right counts for a lot. Despite the down market, sales of GM's Buick LeSabre are up 4% since it moved into the top 10 in J. D. Power's 1989 quality survey (box, page 87).

SMART WIPERS. But the LeSabre is an exception. Only four U. S. cars are among Powers' top 21. And of the 54 1989 models with below-average reliability, according to *Consumer Reports*, 53 were American. Indeed, many consumers doubt Detroit's ability to please them. In a recent BUSINESS WEEK/Harris Poll of 1,253 adults, 77% of those queried drove U. S. models, but only 61%—far fewer than own U. S. cars—said American cars are better than those from Japan or Europe. While 96% consider reliability very important, only 46% thought U. S. cars have fewer defects than Japanese cars. And, significantly, in the context of "things gone right," only 51% said U. S. cars are better-engineered and superior down to the tiny details.

Detroit won't change this perception quickly. Ford's Taurus, for instance, has many quality touches similar to those on Japan's latest models. But even Ford says that its first model to comprehensively implement "things gone right" is the Explorer sport/utility vehicle, which is just out. Meanwhile, the five-year-old Taurus is being hurt by Honda's new Accord, now the top-selling car in the U. S. Through September, the Accord's market share rose a full point, to 4.4%, while the Taurus' slipped a tad, to 3.4%. And Taurus isn't due for a face-lift until the 1992 model and for a full redesign until 1995. "I'm not sure the Big Three even recognize that there is a stage two" to qual... says Christopher W. Cedergren, a J... Power senior analyst.

Stage two wasn't invented by Jap... Mercedes Benz and BMW are famous ... spiffy features and leading-edge techn... ogy not found on middle-class cars. ... new luxury models such as Toyot... Lexus LS 400 and Nissan's Infiniti Q... the Germans contend, Japanese riv... mainly reproduce German innovati... and hack the price. "Look at the sh... of the Lexus," says Carl Flesher, BM... U. S. marketing vice-president. "It's ... most a blatant copy of Mercedes."

By many measures the Germans ... lead. Take the Mercedes 500SL conv... ible, which came out last year. It be... the LS 400 on safety, with features s... as driver and passenger air bags ... seat belts that use pressurized gas ... cinch tight automatically in a crash. ... for nifty flourishes, its wipers speed ... as the car does, an electrostatic fi... sifts out pollen and dust down to 5 ... crons, and its heater uses residual ... gine warmth to keep the interior toa... after the engine is shut off—handy ... ing quick shopping stops.

There's just one rub: So far, all th... gadgets come only on the 500SL, wh... lists for $90,350 vs. $38,000 for the ... 400. Many of them won't show up ... Mercedes luxury sedans more comp... ble to the LS 400 for several years. E... then, matching Lexus' price may m... settling for Mercedes' low-end 190E ... BMW's mid-range 525i. These cars h... smaller engines and lack many of Lex... features, such as a smooth-shifting e... tronic automatic transmission and an... tional electronically adjustable susp... sion. Even BMW's Flesher is impres... The Japanese "are putting tremend... downward pressure on prices," he s...

The effect is starting to tell. Thro... September, 45,414 Lexus models, t... thirds of them high-end LS 400s, w... sold in the U. S., nearly equal to BM... U. S. sales of all models and only ... below Mercedes' total. Infiniti's U... sales are picking up, too. So BMW ... Mercedes are holding down prices a... cuts of up to 10% last year. BMW has ... introduced the 318is, a starter m... whose $21,500 price matches the low-... Lexus ES 250, although not the $17... Infiniti G20 introduced in Septem... Mercedes is beefing up its U. S. mar... ing and cutting its languid product c... to 6 years from up to 16 before. "... have to improve every aspect of ... business," says Michael J. Jackson, E... cedes' senior vice-president for N... American marketing and sales.

BARE BONES. The approach used in... signing the LS 400 shows why even E... cedes and BMW are vulnerable. To... bought competitors' cars—includ... four Mercedes, a Jaguar XJ6, and ...

BUICK CITY: THE FACTORY THAT'S GETTING THINGS RIGHT

HE LINE IN FLINT: "IT WAS CHANGE OR CLOSE"

doesn't sport a flashy design. It sn't made in the most automated lant. And the 5,000 workers who d it in Flint, Mich., weren't chosen apanese-style testing. In short, the k LeSabre seems an unlikely con- er to top the quality charts. But two years in a row, this plain Gen- Motors Corp. sedan has been the est-quality car built in North erica, according to surveys by J. D. er & Associates Inc.

he 1990 LeSabre placed sixth out of domestic and foreign models, based problems owners reported in the three months. It slipped from be- No. 2 in 1989, even though its com- t rate fell 8%, to 82 defects per 100 : Some Toyota and Mercedes-Benz els just got better faster. Still, 's not bad for a car that was near bottom of GM's internal quality re- s four years ago. And unit sales e up 4% through September, while l U.S. car sales fell 7%. "People buy American products if they t their expectations," says George Guernsey, Buick's product-satisfac- engineer. "There's no magic to t [Buick has] learned," adds manu- uring consultant James E. Har- . "All they've said is, 'We're going ddress the basics.' "

OR BLIND. The original goal was e grandiose. GM wanted to create a nology showcase that would sh the Japanese on cost and quali- It spent $400 million to transform ntiquated factory, parts of which d from early in the century. The t's management and workers were eager because other GM plants were vying to take over production of the LeSabre. "It was change or close" the plant, says Nelson B. Gonzalez, who retired in April as plant manager.

But when Buick City started up in September, 1985, too much had changed too fast. To minimize investment, the plant and its stamping facility cover only 1.8 million square feet—one-third less than a typical GM factory. Less space dictated a "just-in-time" inventory system. So orders went out to nearly 600 suppliers on how many parts to ship, and at what time of day and in what order, to match cars coming down the line. With only an hour's worth of parts on hand at times, defects often shut down the line. Suppliers "were sending better parts than they had ever sent before, but they weren't good enough for this system," recalls Leland J. Furse Jr., Buick City's first plant manager. Suppliers also often overshipped—so Buick City sent back the excess until they caught on.

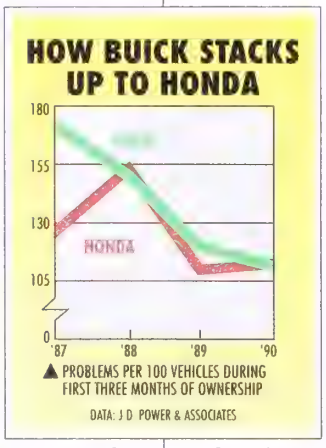
Glitches also developed in Buick City's technology, particularly in its 250 robots. Vision systems on robots that installed windshields, for instance, couldn't "see" black cars. So they skipped them—until new software solved the problem. And some 30 of the plant's robots were mothballed, in some cases because humans were better—or just because Buick had installed too many.

Such an operation demanded unprecedented trust between hourly and salaried workers—and increased responsibility that few hourly workers were ready for. To reduce costs, GM eliminated production-line inspectors and cut the number of supervisors in the plant in half. The job of assuring quality was given to assembly workers, who could halt production by pulling a cord at their workstations—a practice the Japanese call *andon*.

By late 1986, the plant was in trouble. Some 200 LeSabres produced as a test run for the '87 model launch were too shoddy to ship. "The paint wasn't shiny enough. The seams weren't straight enough. The dashboard had a wave in the top that we didn't want there," recalls Guernsey. Worse yet, poor LeSabre sales prompted the layoff of the second shift in April, 1987.

The dismal news galvanized Buick City. "We got scared. I think we really knuckled down and said, 'This has got to change,' " says Maxine J. McCrillis, an air-cleaner installer who is a 22-year GM veteran. A flurry of meetings between United Auto Workers leaders and managers identified the plant's 10 worst problems—from poor paint jobs to window failure. Teams of union and salaried workers then tried to fix them.

NO REST. Engineers worked on the line to discover firsthand the glitches in parts they had designed. Some changes in the way doors were assembled, for instance, quickly fixed windows that had been falling off their tracks. The *andon* system was modified to include a yellow warning cord so that workers could call for help without stopping the line. And errant suppliers were taken to task in weekly reviews with managers and workers. Some 80 suppliers have been dumped since the plant opened, many for not meeting quality goals.



Buick City can't rest on its laurels. It is GM's second-most efficient plant, but it is nearly 30% less efficient than Ford Motor Co.'s best, according to Harbour. And more attention has to be given to the Oldsmobile Eighty-Eight Royale, some of which are made at the plant. Last year, that model had 130 problems per 100 produced, 59% more than the LeSabre.

Still, after all that Buick City has survived, almost any goal seems possible—even the one that still has top priority: to build the highest-quality cars, not only in the U.S., but in the world.

By Wendy Zellner in Flint, Mich.

THE POWER OF BELIEF: #5 in a series

New ideas are everywhere. All they need is the environment to make them happen.

Creativity isn't limited to special people, places or times. ■ Given shared goals and an enabling environment, everyone can contribute. Not just at Motorola, but also among our suppliers, customers and end users. ■ Solutions can be simple like redesigning a product so it snaps together.

Product design can be a snap! Snap-together assembly of the Radius battery charger meant 11 parts instead of 72, Six Sigma quality, and lower costs to customers.

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Building On Beliefs

MOTOROLA

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BMWs—put them through grueling test-track runs, then took them apart. From that, Ichirou Suzuki, the chief Lexus engineer, decided he could match Mercedes on performance and reliability, as well as on luxury and status features.

Suzuki came up with 11 performance goals. On aerodynamics, for instance, no luxury car had a drag coefficient under 0.30. So Suzuki achieved 0.29. He held weight to 3,759 pounds, lighter than the German competition. And he made the LS 400's engine highly fuel-efficient for its power, partly by machining parts to tolerances one-third closer than in any previous Toyota engine. That required new, more precise machine tools. These efforts helped keep gas mileage above 22.5 miles per gallon, so Lexus avoids the federal gas-guzzler tax of up to $1,300, paid by Infiniti Q45 and most Mercedes. Even without the new tools, the LS 400's development cost ballooned to about $500 million, well over budget. "They'd have had my head if the project failed," Suzuki recalls.

It didn't, for several reasons. Toyota's investments in more efficient manufacturing, plus its quicker design and development methods, helped keep the price low. And the car's technology does break ground. Its noise level is just 58 decibles at 62 mph—quieter, according to *Road and Track* magazine, than comparable BMWs and Mercedes. That's partly because it has walls of sandwich steel, with a layer of sound-deadening plastic inside, in front and in back of the passenger compartment. Yet innovation didn't add defects, as it often does in a new model. The LS 400 was No. 4 in Power's 1990 quality rankings, just behind Mercedes' 300 series and two other Toyotas.

MAZDA CHAIRMAN YAMAMOTO IN A MIATA: THE FINE TOUCHES IMPR

LOST IN SPACE. Price aside, Lexus succeeds by focusing on U. S. tastes. Mercedes and BMW try to sell the world on German styling and handling. Suzuki went with a German look, but used extensive consumer research to produce human engineering that appeals to Americans. He spent weeks interviewing U. S. consumers, often at home, chatting about hobbies and values. He was struck by how conservative they were.

So Suzuki gave the LS 400's interior a soft, comfortable feel. Researchers picked through older Toyotas to see where the cars had turned ratty. On the Lexus' seat edges, as a result, they used sturdy materials that should look sharp for up to eight years. But Suzuki also gave the car lots of sex appeal. Its engine has more torque than most German models to give the car the quick start Americans prefer. And its instrument cluster, with neon pointers and trouble lights that seem to float in space, dazzles U. S. competitors, to say nothing of customers. "It's a work of art," concedes David E. Rees, Ford's director of North American interior design.

To get such results, Japanese car companies have had to remake themselves to get more individuality into their cars. Until last year, for example, Toyota's product-management division had to run new concepts past as many as five directors. Now, it reports just to the president. And Nissan and Mazda have given lead engineers far freer rein, including the right to inject their own tastes into a project, which they stay with to the finish. In Detroit, by contrast, top executives often veto details of new model designs, and program managers ch projects frequently, impeding contin of effort. The design project for midsize line, the Chevy Lumina, Po Grand Prix, Buick Regal, and Olds lass, for example, had three leaders

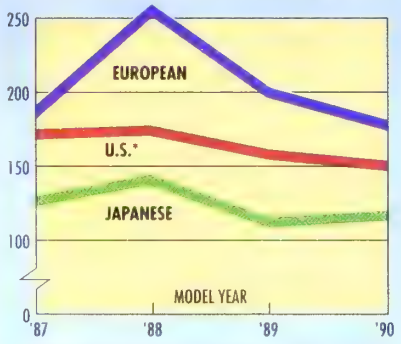
The risks Japanese engineers are ing belie the stereotype of the du team player. Take the Miata. The for it came from Robert Hall, a fo auto-magazine writer who is now a da product planner in California. Jordan, a California designer whos ther, Charles, is GM's chief designe the original styling. But it was who made the car a paean to Euro sports cars of the 1950s.

At 54, Hirai is a sports-car bu passionate that his record collectio cludes an anthology of roadster so He threatened to quit the Miata pr if the car didn't have the front e and rear-wheel drive of classic s cars—something headquarters ma ing types opposed as too risky. He the doors low enough so drivers comfortably hang out an elbow an bricated the tachometer needle light oil so it bounces like a jackr emphasizing the car's agility. He u stiff rubber guide to give the gea the snappy, solid feel of a rifle bolt he prefers. He even fudged a b make the Miata seem zippier than Car speedometers only have to be rate within six miles per hour. So h the Miata's at the top of the lim slightly exaggerate its speed.

Hirai didn't get everything righ course. Some owners fuss that the ta's trunk is tiny and that its p headlights are hard to see over. such nit-picking hasn't hurt sales. A icans are gobbling up 3,550 Miata month, 550 more than expected. Mazda is rushing to boost producti

Honda took a more mystical appr to its newest Accord. Honda wante

THE QUALITY GAP IS NARROWING...



▲ PROBLEMS PER 100 VEHICLES DURING FIRST THREE MONTHS OF OWNERSHIP

*GENERAL MOTORS, FORD, CHRYSLER

...BUT FOREIGN MODELS ARE STILL MOST RELIABLE

Model	Problems per 100 cars sold*
TOYOTA CRESSIDA Japan	63
MERCEDES BENZ 300 SERIES Germany	71
TOYOTA CAMRY Japan	72
TOYOTA LEXUS LS 400 Japan	74
MERCEDES BENZ S-CLASS Germany	76
BUICK LESABRE U.S.	82
NISSAN MAXIMA Japan	89
NISSAN INFINITI Q45 Japan	91
TOYOTA COROLLA Japan	94
MAZDA MIATA Japan	99

*1990 models, during first three months of ownership

DATA: J D POWER & ASSOCIATES

DETROIT MAY BE MISSING THE MARK THAT MATTERS MOST

here's more gloom down the road for Detroit. While 77% of the public say they drive American cars, a fair proportion of them seem to wish they didn't. Only 61% say American cars are best. Detroit's cars get their highest marks for comfortable interiors and better styling. But that may be much to cheer about. Only 41% of the public say that styling would be a very important influence if they were shopping for a new car.

What Americans want is reliability: Fully 96% say it's very important in a car. Ominously, issues related to reliability are just the area where the Japanese turn in their strongest performance. Fully 40% of the public say Japanese cars are better engineered, 43% say they have fewer defects, and 39% give the Japanese credit for getting more of the little details right. Still, 71% do give Detroit credit for improving quality.

REE OUT OF FOUR STILL BUY AMERICAN...

o you or anyone in your household own or lease a...

	Own or lease	Don't own or lease	Not sure
anese car?	22%	77%	1%
erican car?	77%	22%	1%
er foreign car?	10%	89%	1%

UT MANY ARE HAVING SECOND THOUGHTS

you had to choose, which s are better: those made in erica, those made in Europe, or those made in Japan?

	7/90
America	61%
Europe	11%
Japan	21%
Not sure	7%

LING AND COMFORT GIVE DETROIT THE BIGGEST EDGE...

ow, please tell me whether you think American cars or Japanese cars in general...

	American cars	Japanese cars	Both the same	Not sure
better engineered	51%	40%	3%	6%
e better styling	69%	23%	5%	3%
e more logical, easy-to-controls and switches	63%	21%	5%	11%
more fun to drive	62%	27%	4%	7%
e fewer defects	46%	43%	3%	8%
e more of a quality look feel	68%	25%	3%	4%
e better dealers	61%	17%	7%	15%
e more comfortable riors	76%	15%	4%	5%
more of the little details t	51%	39%	2%	8%
e you more value for r money	54%	39%	2%	5%

UT RELIABILITY IS WHAT TIRE-KICKERS REALLY WANT

you were shopping for a new car, how important would each he following be in influencing your choice of which car to —very important, somewhat important, not very important, or important at all?

	Very important	Somewhat important	Not very important	Not at all	Not sure
e	75%	20%	3%	2%	0%
ability	96%	3%	0%	0%	1%
ing	41%	44%	11%	3%	1%
Feel	67%	28%	4%	1%	0%
Safety	89%	10%	1%	0%	0%
Options and accessories	29%	53%	15%	3%	0%
U.S. origin	50%	27%	13%	7%	3%
Foreign origin	15%	24%	27%	30%	4%
Previous experience with same brand	62%	25%	6%	4%	3%

AMERICAN QUALITY IS CATCHING UP...

■ U.S. carmakers say the quality of U.S. cars is now almost as good as the quality of Japanese models. Do you agree strongly, agree somewhat, disagree somewhat, or disagree strongly?

Agree strongly	34%
Agree somewhat	37%
Disagree somewhat	16%
Disagree strongly	9%
Not sure	4%

...BUT GAINS IN MARKET SHARE WON'T COME SOON...

■ Will the next car you buy be an American model, a Japanese model, or some other foreign model?

American	73%
Japanese	12%
Other foreign	9%
Won't buy a car	2%
Don't know/not sure	4%

...OR EVEN FOR QUITE SOME TIME

■ Five years from now, do you think more people like yourself will be buying Japanese cars, or not?

More buying Japanese cars	31%
Not buying Japanese cars	60%
Not sure	9%

Edited By Mark N.Vamos

Survey of 1,250 adults conducted July 13-18, 1990, for BUSINESS WEEK by Louis Harris & Associates Inc. Results should be accurate to within three percentage points.

ILLUSTRATION BY RICK LOVELL

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ition, the Fund intends to engage in hedging and risk management transactions to seek to minimize fluctuations in net asset value which are due to es in currency exchange rates. The principal value and investment return of Fund shares will vary with market conditions and may, when sold, be or less than at the time of purchase. ®denotes registered trademark of Van Kampen Merritt

be "an acquired taste" that would build buyer loyalty through its life, says Tetsumi Miyoshi, its product manager. The first step toward that goal, the car's 15 product-development leaders spent a year coming up with an image to personify the ideal family sedan. Their choice: a rugby player in a suit, a metaphor for a gentleman who is also strong and athletic. Then, they decided on five traits the car should exemplify.

The rugby player's assumed desire to be "stress-free," for example, was translated into new ways to cut noise and vibration. The liquid-filled engine mount is one result. So are a honeycomb of sound-absorbing paper in the ceiling, a layer of soft insulation covered by foil to make the steel floor pan feel more solid and mute road noise, and triple-sealing rubber gaskets around the doors to make them close tightly. And unlike other cars, the Accord's dash is molded out of a single piece of plastic rather than several. It is tough to manufacture, but such a dash looks good and almost never develops rattles and squeaks.

In most Japanese models, such innovations stem from probing research. "We want to know how the car fits into [people's] lives," says Steve Barnett, director of product and market strategy for Nissan North America Inc. in Torrance, Calif. Barnett, a PhD in anthropology, hires teams that go into U.S. homes with video cameras, taping interviews and surroundings down to kitchen cabinets, sometimes paying people $50 to cooperate. Then, Nissan researchers translate the findings into subtle new features.

For instance, the Nissan Maxima's trunk lid is counterbalanced so it will close easily—designed, Barnett says, "with women juggling groceries and children in mind." Nissan also is experimenting with cars with different front seats for passenger and driver—contoured to give the driver better back support and the passenger, who has more freedom of movement, room to lounge. Such probing by Japanese companies doesn't stop after the car is out. Each Lexus employee in the U.S. must call at least one Lexus owner each week. That has led to new goodies, such as an outside temperature gauge being [illegible].

A key to such innovation at Mazda, their team Yamamoto calls "[illegible]"—which he defines as "absolute awareness" of both reason and emotion. To provoke engineers' imaginations, Mazda runs consumer focus groups where people talk about everything from food to fashion. Mazda engineers also probe deeply into which movements in a car elicit which emotions. At Mazda's test track, and during simulated driving, engineers monitor the heart and breathing rates of drivers who narrate their feelings into a microphone as they bump along at different speeds. This helps determine settings such as steering-wheel angle and steering-and-suspension stiffness, so each model has a "personality" geared to its market.

IACOCCA: CHRYSLERS "ARE EVERY BIT AS GOOD AS THE JAPANESE"

MISSED CUE. Ford, among U.S. companies, has the most practice with "things gone right." For the Taurus, on which it started work in 1980, it did extensive consumer testing. It also took apart the best cars from Europe and Japan, identifying 400 features and driving characteristics to emulate, from good visibility to snappy handling. The Taurus had innovations, too, such as an electrically heated windshield to melt winter ice and trunk netting that keeps bags upright.

But Ford hasn't reproduced Taurus' success in other models. Its Thunderbird and Cougar models are nice on the outside. But inside, "there's quite a bit to be desired," concedes Ford's Rees. Chairman Harold A. Poling has criticized the cars as overweight, underpowered, and over cost. Ford is offering a more potent V-8 in the 1991 versions and plans to reduce weight as part of a 1992 face-lift.

In the meantime, even the new Escort, engineered by Mazda and styled by Ford, lacks pizazz. It has fallen from the No. 1 model in the U.S. to No. 4, behind Accord, Taurus and Chevy Cavalier. Ford promises that the replacements for the Ford Tempo and Mercury Topaz compact twins will be among its best designed and engineered cars. But they won't be out until 1995, and Ford isn't ready with specifics.

In short, the Big Three are just getting started. They have only recently begun to extensively involve design engineers in consumer research, for example. At Chrysler, that's resulting in a lot of new touches in a midsize family sedan code-named LH and due out in 1992. Last summer, LH designers met with nearly 100 Chicagoans to evaluate 220 features in a variety of cars, including Nissans, Hondas, BMWs, and Volvos. Now, Chrysler is testing muffler systems to get the LH to emit a "musical" blend of sounds consumers seem to prefer. And it has programmed the car's automatic transmission to shift at speeds that avoid annoying bursts of noise from the engine or exhaust. Other features will include a built-in child carrier that folds into a seat when not in use.

SCARE-FREE. There is a smattering of other U.S. projects. GM's new minivans and its long-awaited Saturn cars, due out Oct. 25, have plastic side-body panels that are impervious to parking-lot dings and won't rust. And engineers at Cadillac have moved seat controls from the base of the seat to the door, even though that costs $13 more per car. Consumers said that reaching into places they can't see gives them the creeps.

But for now, Detroit isn't making up ground. The Celsior, the version of the Lexus sold in Japan, has an ultrasonic droplet remover to keep side mirrors clear of rain and a back-massaging seat in some models—though there are no plans to offer these in the U.S. Toyota offers a refrigerator-with-icemaker in its minivan. BMW is working on a system that electronically senses when a car is too close to the center line or ditch and nudges it back to the center.

The Big Three are behind even on

ONE MAZDA TEST MEASURES DRIVERS' HEART AND BREATHING RATES

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sic engineering. Buick boasts that its 1991 Park Avenue has wowed people with its smooth-shifting, electronically controlled automatic transmission. But many Japanese models have this already. Detroit is just now getting around to refinements such as multivalve engines. And it is still perfecting simultaneous engineering, a technique where suppliers, designers, engineers, and manufacturing experts develop a car jointly, rather than in sequence.

That helps explain Detroit's biggest disadvantage: its slowness. It replaces old models an average of every eight years, according to figures from J. D. Power. Ford averages a glacial 9.5 years, vs. 4.5 for all Japanese carmakers and just 4 for Honda. That gives the Japanese more chances to improve styling and technical innovation—and to adjust to surprises. Even with the recent price runup, gasoline still isn't as expensive in inflation-adjusted dollars as it was in the early '80s. But if fuel economy again becomes a big selling point, Japan's more flexible manufacturing techniques allow it to reconfigure its product mix faster than Detroit can.

MANY MODELS. In short, it's showdown time. In the past year, Japan's U. S. auto-market share has jumped three points, and J. D. Power projects another three-point jump by 1992. That's partly because of the sheer variety of new Japanese models and partly because tried-and-true sellers such as the Accord are doing better than ever. The worst news, from Detroit's view, may be that the new "things gone right" models are holding their prices. That's a big wind fall in the currently shrinking U. S. car market, where many domestic models and even some Japanese ones, carry rebates of up to $3,000.

J. D. Power projects that Japan gains will level off after 1992, mainly because Detroit is catching up on defects. But that is by no means a given. To hold its own, Detroit will have to come up with cars that incorporate the new quality elements Japan is introducing—and do it fast or eat dust.

By David Woodruff in Detroit, with Karen Lowry Miller in Tokyo, Larry Armstrong in Los Angeles, and Thane Peterson in New York

ROLLS-ROYCE SEES THE FUTURE—AND IT'S STILL HANDMADE

Matthew Wright, proud owner of six Rolls-Royces, is touring the Rolls factory in Crewe, England, for the first time since 1975. Apart from one robot and a few new machining centers, not much has changed. That suits Wright, a Liverpool real estate developer, just fine. He grins at workers handcrafting the elegant walnut veneer that graces Rolls and Bentley cars. "You don't ever want to lose this," Wright says. "There is a limit to what machines can do."

In an era of bewildering change in manufacturing, much still moves deliberately at Rolls-Royce PLC. Many machine tools date from the plant's opening in 1946. Crates of parts are scattered about. While other manufacturers vie to mass-produce more pleasing cars, Rolls claims to still make the world's "best" motorcar almost entirely by hand. That helps lift prices into the stratosphere. Only the rare customer—3,243 last year—can afford the base price of $114,100 for the sportier and less pricey Bentley, or $140,200 for a Rolls Silver Spirit II.

SOFT PEDAL. Yet even Rolls, a unit of Britain's Vickers PLC, knows that prestige may no longer be enough to keep sales purring. With luxury-car makers such as Daimler-Benz and BMW—plus the onrushing Japanese—shifting upmarket, Rolls worries that it will feel the competition. So it is redoubling efforts to build in quality. For one, it has spent $9 million over three years to train employees to use a new system that keeps Rolls's 80,000 parts flowing in sync with its laborious assembly process. That keeps the right parts at hand, so less work must be redone.

Rolls likes to get things just so before adopting newfangled technology, however. It added antiskid brakes five years after most other luxury makers did, in part to refine the system so the car wouldn't lose its distinctive ultra-sensitive brake pedal. The 1990 models carry a major innovation for Rolls: a microprocessor-controlled suspension system. The software took Rolls and a German supplier four years to develop.

Rolls claims that about 60% of all models built since the company's founding in 1904 are still roadworthy. Longstanding quality-control processes help explain why: things like cleaning and treating the body shell for four days before paint is applied, or assembling some hydraulic components in oil to prevent contamination by dirt. Still, it's the handcrafting that distinguishes the cars. Says Tony Kent, a sheet-metal worker who solders six radiator shells a week: "Every so often, some one comes up with the bright idea of bringing in welding machines. But we always come back to hand-molding."

REGAL APPOINTMENTS. These special touches are what attract Rolls buyers from Queen Elizabeth II to Bill Cosby. 85% cite craftsmanship as Rolls's major strength. Customer suggestions are heeded. They resulted in the wood veneer covers that slide over sun visors when not in use and the planned addition of slots for glasses in the picnic tables that drop from the rear of the front seats.

Nurturing the relationship between customer and car is essential. With just $456 million in revenues in 1989, Rolls can't fight it out on technology. And it could suffer in an economic downturn. Unit sales worldwide were up 7%, to 2,8 through August, but off 8% in the U. S., where Rolls does 30% of its business. Booming sales in Japan help provide a cushion. So does the Bentley, which now accounts for more than of sales. But Rolls's secret is its World cachet. Keeping that—while adding just a touch of innovation—seems the best insurance against whatever the future may bring.

By Richard A. Melcher in Crewe, England

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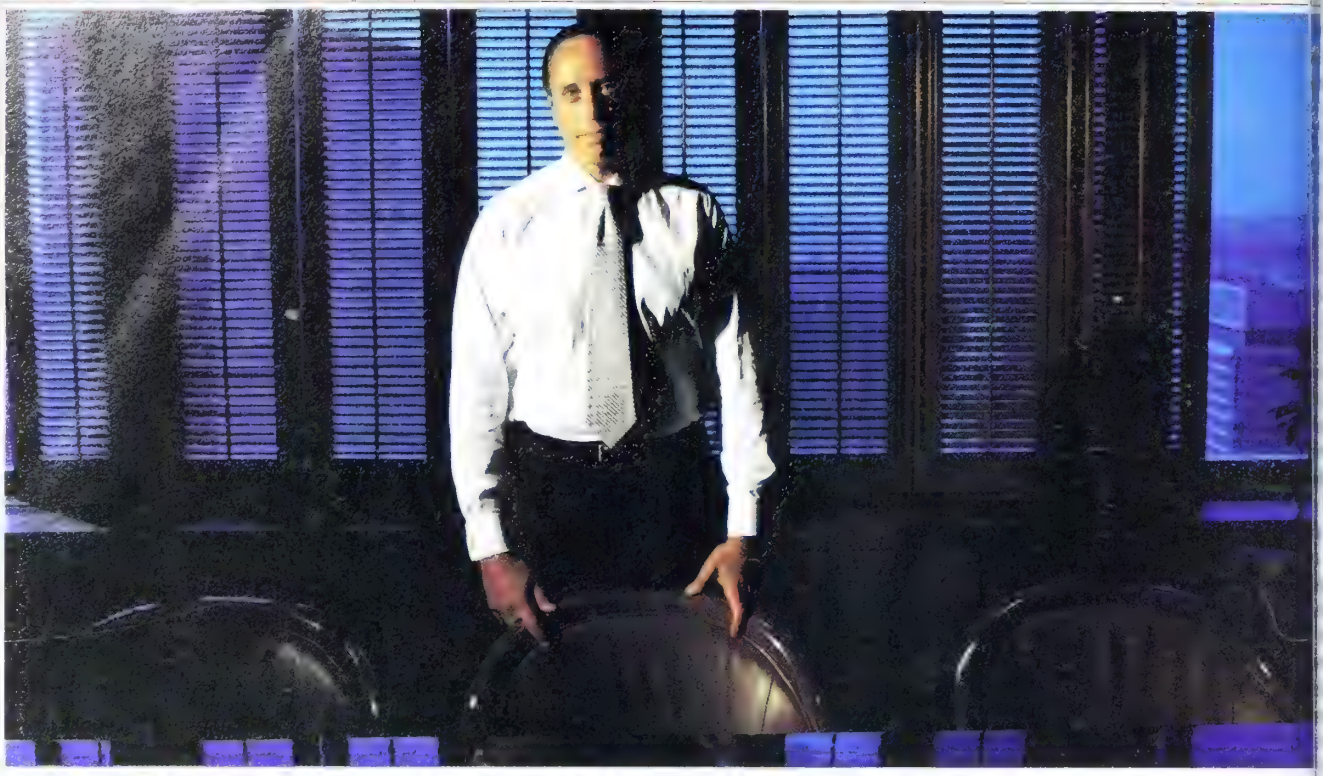

LOOKING FOR A LONG-TERM SOLUTION: FISH HAS STANCHED THE OUTFLOW OF DEPOSITS, BUT BNE IS STILL PERILOUSLY LOW ON CAPITAL

LAWRENCE FISH'S BEST MAY NOT BE GOOD ENOUGH

He has kept Bank of New England alive—but negotiations with bondholders could make or break h

There are chilled shrimp for 150 and an open bar as Lawrence K. Fish enters an evening reception at the Bank of New England's branch in downtown Worcester, Mass. The chairman of struggling BNE works the crowd of corporate customers and staffers with a wide smile, poses for photographers, then moves to the podium to begin yet another cheerleading speech, his third in a week. "We're not the Southwest," Fish says. "Things are not nearly as bad as some people think they are."

Convincing customers that he's right has become a full-time job for Fish these days. A veteran New England banker with a reputation for shaking up stodgy management, the 46-year-old Fish took over at BNE last March. An examination by federal regulators in December disclosed that BNE had more than $2 billion in bad real estate loans. Then, shortly afterward, former CEO Walter J. Connolly Jr. was forced to resign. At the time, analysts and bankers wondered whether BNE would end up the nation's third-largest bank failure, after First Republic of Dallas and Chicago's Continental Illinois.

Fish has brought his bank back from the brink of insolvency. He stanched a run on deposits that began last December, when news about the bank's plight made almost daily headlines in New England. And he has sold off some $6 billion of the BNE's $30 billion in assets.

'PHONE HUGS.' Still, BNE remains in a precarious spot. After losing $1.1 billion last year and $80 million in the first half of 1990, executives don't expect to turn a profit until next year. The vicious real estate market continues to dog the bank's loan portfolio. And its capital has dwindled to perilous levels. On top of this, BNE's holding company is running low on cash and may have trouble meeting its debt obligations early next year. Fish must somehow persuade investors who own $706 million in BNE bonds to swap their debt for stock. The deal would be the largest-ever debt-for-equity swap by a bank holding company. If Fish fails, BNE might not survive.

Unlike his predecessor, a former marine who supervised drill instructors, Fish is easygoing. He gives "phone hugs" to employees and walks at least one floor of the bank's 40-story Boston headquarters daily to reassure them. The son of a novelty wholesaler who sold party favors, Fish graduated from Harvard business school in 1968. But he didn't follow the usual MBA route. He went to live in an ashram in India for a year to study yoga and meditation.

Fish's first exposure to banking was in 1970, when he took a job with the U. S. Agency for International Development in Brazil, where he arranged financing for small businesses. Next, F

over as manager of the Bank of
n Corp.'s Rio de Janeiro office,
was followed by a stint in Tokyo.
ning to Boston in 1983, he soon
l recognition for reinvigorating the
s flagging trust department. He
ewarded by being put in charge of
e bank's New England activities.
n left the bank in 1987 for a more
nging job as president of Columbia
gs & Loan in Beverly Hills, Calif.
ission: rescue the thrift by clean-
its $4.5 billion junk-bond portfolio.
olumbia insiders say CEO Thomas
al held him back. Says Fish: "When
I couldn't do any
I left."

n took over the job
E after the board
nstalled a caretak-
rector H. Ridgely
k, to replace Con-
Fish arrived just
e bank was fight-
three-month run
posits that began
ws spread of seri-
eal estate loan
ms at the bank.
id-June, BNE had
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40,000 retail ac-
s, or $1.6 billion in
ts. The outflow of
was so great that
arch, the month
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AMBIT. Fish moved
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s. In April, BNE of-
a nine-month cer-
e of deposit that
8.9%, then the
st rate in the na-
nd a full half a
ntage point above any other New
nd bank. The campaign drew more
$7 billion in new deposits, mostly
retail customers. In recent months,
nas also raised cash by selling a
of the bank's assets. And he has
to cut costs by slashing the pay-
y 5,600, a third of BNE's staff.

strategy has bought the bank
The run on deposits has stopped.
NE no longer depends on the Fed
nding. But the experience has left
customers jittery. For example,
ty of Boston pulled $34 million of
illion in city funds out of the bank
n. 24 and has kept its balances low.

"I've got to be extremely conservative [about] where I put taxpayer dollars," says City Treasurer Lee F. Jackson.

The bank is still far from healthy. Equity capital as a percent of the bank's assets has slid to 1.6%. That's a far cry from the 3% minimum that the U. S. Office of Comptroller of the Currency has mandated for BNE. Then, there's the looming debt crunch. If Fish can't persuade bondholders to swap their debt for stock, the bank could default on its obligations early next year.

Bondholders have little choice but to strike a deal. The bank holding company, which issued the debt, had only $23 million in cash at the end of June. And regulators have blocked BNE's subsidiary banks from paying the company any dividends, until the bank's financial condition improves. Last year, the subsidiaries paid their parent $148 million.

Bondholders are prepared to suffer some losses, according to one of them, Gregory F. Kiernan, managing director of corporate bond sales at PaineWebber Inc. A month ago, some bondholders suggested that the bank could redeem its debt by paying 20¢ to 25¢ on the dollar in cash. Under the proposal, BNE would also kick in 100 million to 125 million con[illegible]n shares. That would give bondholders, mostly insurance companies and pens[illegible] funds, control of more than 50% of B[illegible] Fish and bondholders decline to discus[illegible]heir negotiations.

Even if Fish m[illegible]ages to cobble together a debt agre[illegible]nt, he still has to contend with real es[illegible]. Carrying costs on foreclosed propert[illegible] are running at about $21 million a mo[illegible]. And efforts to sell off BNE's $2.8 b[illegible]on worth of nonperforming real esta[illegible] assets are moving slowly. Fish's big w[illegible]ry is that the market will continue to [illegible]teriorate along with the New England [illegible]nomy.

Regulators h[illegible] been patient with Fis[illegible] With the Federal Depo[illegible] Insurance Corp.'s fu[illegible] in such bad shape, anal[illegible]st Gerard Cassidy [illegible] Tucker Anthony & R. L Day Inc. reckons that regulators can ill afford a failure by a bank the size of BNE. Competitors also want Fish to succeed. A failure, says the chairman of a rival bank "would cast a pall over New England and all the big banks."

Still, if the bank pulls through, Fish faces an enormous task in forging a longer-term strategy. He eventually wants to target individuals and midsize companies. With 323 outlets, BNE's branch network is second only to Shawmut Bank; one in five New Englanders have some relationship with BNE. True, BNE dealt a blow to its retail plans by selling its credit card business. But that occurred before Fish arrived, and the new chairman has been careful not to lose other sound businesses. Just days after his arrival, Fish scotched a deal to sell $2.5 billion in home-equity loans to General Electric Credit Corp. "It was crazy to be selling one of our best-yielding assets," he recalls.

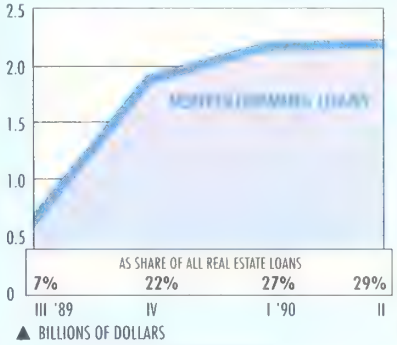
For now, Fish has time on his side. There are plenty of banks that want pieces of the BNE empire. But it's unlikely any would buy the whole bank or suggest a merger. Unlike Texas, where out-of-state buyers saw troubled banks as a way to get into fertile new ground, New England has no such appeal. Fish may have ample opportunity to get his pep talks down pat.

By Geoffrey Smith in Boston

AS IT SELLS ASSETS TO STAY AFLOAT...

Assets sold since Jan. 1	Value Millions
COMMERCIAL LOANS	$1,996
MONEY MARKET ASSETS	1,800
LEASING	915
CREDIT CARD RECEIVABLES	646
MUNICIPAL BONDS	480
RESIDENTIAL MORTGAGES	355
STUDENT LOANS	75
ASSETS SOLD	6,267
TOTAL ASSETS HELD JUNE 30	23,100

...REAL ESTATE HURTS BANK OF NEW ENGLAND



DATA COMPANY REPORTS

SETH MINOR

A CONSENSUS OF CFOs: THE U.S. WON'T 'FALL OUT OF BED'

But their outlook is considerably less sanguine than before August

The financial navigators of Corporate America are charting a course through wicked weather ahead. Chief financial officers of the largest U.S. companies say the Mideast crisis is battering the economy. Still, they expect the nation to ride out the problems without suffering massive damage.

This glimpse of high-level corporate thinking comes from a survey of CFOs in the BUSINESS WEEK 1000 by A.T. Kearney Inc., a New York-based consulting firm. Although they are in charge of capital spending, debt issuance, and myriad other money maneuvers that play a big role in the macroeconomic picture, these influential executives seldom share their insights with the public. That's why Kearney, in conjunction with BW, has polled them.

NO CATASTROPHE. CFOs were first asked for their economic forecasts in midsummer, before the Iraqi invasion of Kuwait on Aug. 2, when it seemed only a mild slowdown was coming. Then in September, with oil prices spiraling and economic jitters growing, Kearney resurveyed the group. Result: The 30 who responded have grown much more pessimistic but don't think catastrophe looms. "There's a high level of uncertainty among CFOs," says Robert W. Gunn, the Kearney vice-president who oversaw the survey. "At the same time, nobody believes the economy is going to fall out of bed."

Consider the CFOs' prognostications for the Dow Jones industrial average: In July, when they first responded to the survey and the Dow was flirting with 3000, they thought the index would ease down to an average of 2884 by yearend (table). But after the Iraqi incursion, with the market in free fall, their prediction was for the Dow to end 1990 at 2347. The level on Oct. 10 was 2407. After Iraq, CFOs were also queried about where the market would be by yearend 1991. The answer was upbeat: The Dow will regain much, though not all, of the ground lost over the past two months, finishing at 2708.

That performance would be remarkable given the CFOs' sentiments on the subject they know best: interest rates. They don't see short-term corporate borrowing costs, which use three-month Treasury bills as a benchmark, getting any cheaper. In fact, they see T-bills, now 7.2%, nudging up to 7.4% by yearend—with little change through 1991. Long-term debt, as measured against 30-year Treasuries, will remain high through the rest of 1990 and recover only slightly next year.

These CFO expectations are intriguing at a time when the Federal Reserve Board is under pressure to relax rates to combat impending recession. So far, the Fed has been reluctant to do that, out of concern over possible oil-shock inflation—and fear that foreign investors, whose rates at home are rising, will stop buying Treasuries. In effect, CFOs believe the Fed will stay on its present course. The flip side is instructive, too: "They don't expect an inflationary surge," says Kearney's Gunn. "To them, the oil shocks will be sustainable."

Here's more good news: Foreign exchange rates, increasingly important as business becomes more international, don't figure to change much, either. The dollar, which began dropping against other currencies even before Iraq, will continue to plummet, they say. The CFOs look for only marginal strengthening of the dollar between December, 1990, and December, 1991. If so, that should mean continued strong demand for exports because U.S. goods will stay relatively cheaper abroad.

PARACKA: CAUTIOUS AT RORER

WISHFUL THINKING. How are individual companies coping with hard times? Some midsummer's sunny outlook turned dark, CFOs have scrapped their original plans and are adopting more stringent substitutes. Air Products & Chemicals Inc., says CFO Gerald A. White, has slapped a 2% to 4% surcharge on gases to make up for higher diesel fuel bills for delivery trucks. Even Rhône-Poulenc Rorer Group Inc., which is in the recession-resistant pharmaceutical industry and projects strong sales, is cautious. Says Daniel Paracka, until recently its CFO and now a Rorer consultant: "We will tighten capital spending somewhat."

Despite tough times ahead, CFOs are paradoxically sanguine about their particular company's prospects. Call it wishful thinking, but at midsummer, they forecast robust revenue growth: 12% in 1990 and 12.5% in 1991. Gunn says that Iraq's move has tempered that rosy view only slightly. Still, it's unlikely that the near future could be this good, since it would then outstrip the best years of the 1980s' expansion. Revenue growth for the BUSINESS WEEK 1000 peaked at 11% in 1988.

The Kearney survey provides some fascinating tidbits about two of the most vexing problems CFOs face nowadays: raising capital and controlling benefit costs. For instance, the survey shows that companies are making good use of a prime source of patient capital, the employee stock ownership plan. Some 50% of the 60 companies covered by this portion of the survey have an ESOP.

HOW CFOs ASSESS DAMAGE FROM THE MIDEAST CRISIS

AVERAGE ESTIMATE IN SURVEY OF BUSINESS WEEK 1000 CHIEF FINANCIAL OFFICERS

	Current level*	Pre-invasion forecast (yearend)	Post-invasion forecast (yearend)	
		1990	1990	1991
DOW JONES INDUSTRIAL AVERAGE	2407	2884	2347	2708
3-MONTH TREASURY BILL RATE	7.2%	7.6%	7.4%	7.3%
30-YEAR TREASURY BOND RATE	8.9%	8.5%	9.0%	8.6%
YEN PER DOLLAR	129	149	137	141
MARKS PER DOLLAR	1.53	1.69	1.55	1.64
GOLD PRICE PER OUNCE	$392	$360	$401	$382

*As of Oct. 10 DATA: A.T. KEARNEY INC., BRIDGE INFORMATION SYSTEMS INC.

. Plans account for an average 7.9% e companies' equity. Most CFOs say SOP share is likely to grow in the five years. The plans are finding because they provide a tax break hold down pension costs.

alth care costs are proving more esome. CFOs anticipate that the h tab will climb 16.2% this year, up 11% in 1989 and far higher than inflation. The average health cost as a share of the sales dollar is 1.5%, or $2,900 per employee.

The survey also offered a snapshot of CFOs themselves, a bunch often dismissed as mere bean counters when indeed they are a key force in top management councils. These financial executives, whose average age is 49, about a decade younger than the CEO, attained their berths after slightly less than 10 years at the company. "This means they rocketed up through the ranks," says Gunn. "They aren't perceived as mere numbers crunchers." If the numbers they are crunching lately are right, something larger than their careers is facing a daunting, but survivable, challenge.

By Larry Light in New York

ESTATE

HE HOUSE OF PORTMAN IS)LTED BUT STILL STANDING

loses control of the Peachtree Center—but not much more

lrom the outside, the prospects for Atlanta developer John C. Portman Jr. appear grim. In the midst of ic negotiations to restructure more $2 billion in debt, the man best n for designing hotels with atriums tted Oct. 9 that he had lost control s crown jewel, the Peachtree Center e complex in downtown Atlanta.

at's not as bad as it looks, however. itors of the Portman Cos. say that chastened developer may rge in surprisingly good e. Unless real estate prices ge further or a balky lender s a bankruptcy filing, he is to hold on to a good bit of mpire, bankers say.

INFUSION. Nor is the Peach- Center pact such a come- , since Portman already had ed to cede part of the prop- anyway. When he borrowed million from Equitable Life rance Society and Nippon Insurance Co. in 1988 to re- ce the complex, he agreed ive them a 50% ownership e at the end of the 10-year gage. Now, two months be- on payments, he's consent- to immediately upping their ty stake to 75%. The other for Portman is that the in- rs are giving him $25 million esh cash to cushion him in soft office rental market.

he has got some breathing room to with another set of creditors: 22 s from around the globe. One bank- the workout talks says that the two rers could have forced Portman into onal bankruptcy. Portman declined ment. He had pledged his own as- for the Peachtree Center mortgage. he 65-year-old Portman's woes are lematic of real estate lending excesses of the 1980s. Like Donald Trump and other high-profile developers, Portman had little trouble gaining financing to go on a building spree that included a massive project in Shanghai and expansions of his wholesale marts in Atlanta and San Francisco. But this year, he can't roll over his unsecured loans when they come due. The reason: Nervous federal regulators are telling banks to cut down on loans for speculative ventures.

PORTMAN: ASKING LENDERS FOR A FIVE-YEAR GRACE PERIOD

The initial sign of trouble was at his cherished hotel in San Francisco. Few costs had been spared in construction of the Portman Hotel, one block from Union Square and the first of what he immodestly promised would be an ultra-luxurious chain. But right from the opening in September, 1987, occupancy never was high enough to cover debt service and operating costs. Worse, last year's earthquake devastated tourist traffic—and derailed plans to sell the hotel. He finally unloaded the property May 31 to Tokyu Corp. One of the bankers in the workout talks says hotel operating losses chewed up more than $60 million of Portman's already depleted working capital.

NO GO. By April, Portman had to ask his lenders for help. But first, he boldly requested still more money to continue speculative developments—a plan they snubbed. In the months since, Portman has adopted a more subdued approach. Bankers dickering with him say he's now asking for a plan that will give him a five-year grace period and $11 million in new upfront loans. During those five years, his lenders, including Citibank and First Chicago Corp., will be repaid only to the extent that cash flows are adequate. Otherwise, the unpaid interest will be tacked on to the loans and come due later. The plan would require him to sell some real estate assets to pay down the loans.

Will the lenders O. K. his plan? None will speak for the record, but the secured lenders say they are receptive to the idea. The biggest resistance will come from unsecured creditors, who don't have Portman assets backing their loans to him. Two of these, Chemical Bank and Germany's DG Bank, already have filed suit against him to collect on overdue loans.

Portman isn't talking, but aides say he is optimistic the banks will come around. This obviously isn't the best time to be unloading real estate. But with five years of running room, Portman believes prices will eventually firm at trophy properties such as the Embarcadero Center in San Francisco and the Marriott Marquis Hotel in Manhattan's Times Square. Then, he can sell buildings and dig out of his debt mess. That may seem too upbeat a scenerio in the current real estate environment. At worst, though, he could sell his dream, a 60-story, $373 million office tower now going up next to Atlanta's Peachtree Center. Beyond that, his days of swashbuckling new ventures are over for some time.

By Chuck Hawkins in Atlanta

CONSUMER FINANCE

CASPERSEN: BENEFICIAL'S TRIED-AND-TRUE FORMULA IS BORROWING CHEAP AND LENDING DEAR

BENEFICIAL COULD GIVE LENDING A GOOD NAME AGAIN

The consumer finance giant's self-discipline is paying off

It has been a dismal year for banks and savings and loans. Losses from their bad loans are straining the federal deposit insurance safety net. But in another corner of the financial services world, Beneficial Corp., a consumer finance company, is prospering.

Credit Beneficial's success to a born-again conservatism. After a fling with diversification and easier credit for borrowers, it is concentrating on a more cautious pursuit of its traditional business: consumer loans. It has largely avoided the commercial real estate loans and loans for highly leveraged transactions that are haunting many lenders, including archrival Household International Inc. This approach has enabled Beneficial, with earnings expected to grow 14.8% this year, to zip past Household in profit growth (chart).

AGE-OLD WISDOM. Beneficial is also taking advantage of problems in the bank and thrift industries. Besides posting strong earnings, the company maintains loan-loss reserves that are among the highest in the consumer finance industry. That enables Beneficial to continue making loans while other institutions have been forced to pull back. "We are able to grow in a time when our competitors are facing the same problems we faced a decade ago," says Finn M. W. Caspersen, chairman and chief executive officer. His company—whose $8.4 billion in assets would make it only 64th among banks—is now the third-largest issuer of second mortgages in the U. S. Caspersen is also trying to win more business overseas. Beneficial recently opened offices in Dresden and Leipzig, Germany.

Beneficial's age-old formula is borrowing cheap and lending dear. The company issues debt, paying an average interest rate of 9.28%. It lends that money to customers, charging about 14% for a second mortgage or 23% for an unsecured personal loan. In the first half of 1990, Beneficial earned a spread averaging 9.51 percentage points.

People pay these rates because Beneficial is so good at selling its wares. It buys customer bills from retailers to get names of people to solicit. Half of its business comes from providing credit card financing for many retail chains' customers. Beneficial prides itself on catering to its lower-middle-class clientele: A typical borrower earns $30,000 a year.

Perhaps the most profitable service Beneficial offers is what it calls Refund Assistance Loans. For a flat $35, customers who file their returns electronically through H&R Inc. can get, within two days, a from Beneficial the size of their re In two to four weeks, the IRS pays ficial, earning the company an a lized interest rate of about 45%, mates analyst Gregory Whyt Shearson Lehman Brothers Inc.

Just as important are Beneficial's credit standards, a lesson Casp learned the hard way. In the early Beneficial had to charge off about million in three years for unpaid Charge-offs, which Beneficial defin bills unpaid after six months, peak 1982, when they hit 2.4% of receiva Charge-offs are now running at Household Finance, by comparison a charge-off rate of 1.73%, but H hold officials say they are quick charge off some loans than Benefic

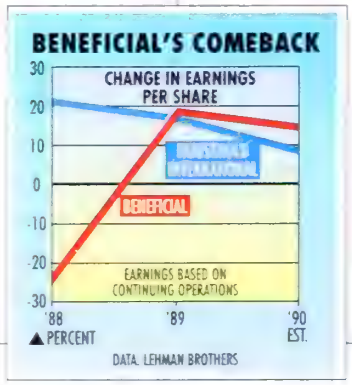
Diversification was another costl son. In the 1970s and early '80s, Ca sen bought a reinsurance compan S&L, and even the mail-order house gel Inc. Beneficial ended up taki $400 million hit and selling all bu profitable consumer finance busine

Straying from consumer fin would have shocked Caspersen's la ther, O. W., who was president and executive for 17 years before his took over. The company still retains of the atmosphere of a family bus run by a country gentleman. Benefi headquarters complex sits on 700 in pastoral Peapack, N. J., abou miles east of Caspersen's home i hunt country on the New Jersey-P sylvania border. As president o U. S. equestrian team, Caspersen rides in championship events. In 198 gave the team training grounds a stable that had belonged to Bene

WEST COAST BLUES. The worsenin cession is the biggest cloud on Be cial's horizon. The company is exp to California real estate, where 40 its home equity loans are outstan Declining home prices could cause tomers to walk away from their gages. Another shareholder worry: gress might remove the tax deduct of home equity loans.

The company has its champ among investors, b the market's aversi financial services s isn't helping Bene It's trading at 36¾ 47 in August. No only Beneficial ha much success sellin strong earnings clean portfolio as i selling loans.

By Leah J. Natha Peapack, N. J.



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BY GENE G. MARCIAL

WHY STALWARTS ARE LOADING UP ON LOCKHEED

The stock market's nasty downdrafts have sent investors running for cover—and respite doesn't seem to be anywhere near. But investment manager Joan Lappin, whose $60 million portfolio has taken a pounding, is hitting back by loading up. She has been buying more shares of the 10 stocks in her portfolio whose prices have slumped to fire-sale levels, plus one new pick: Lockheed.

Why Lockheed? "It's the one stock that's likely to be a winner in the current hostile Mideast environment," says Lappin, president of Grace & White's Gramercy Capital Management. Her stance isn't popular on the Street. Most analysts view Lockheed, one of the largest defense contractors, as a loser because of impending cuts in the military budget. Several write-offs crippled last year's earnings, and budget cuts can only worsen the outlook.

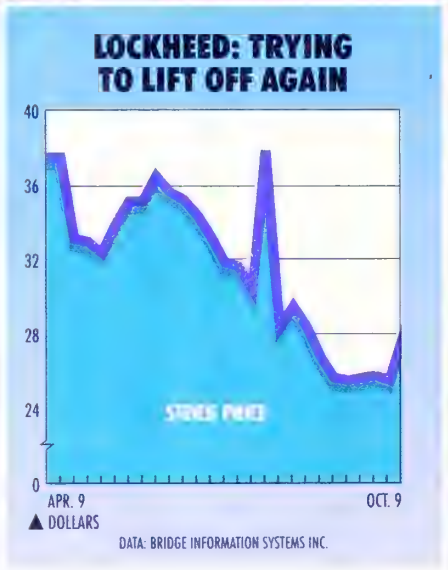
Even so, Lockheed has attracted some big investors and bargain hunters, who note that the stock is trading at 28—the low that Lockheed skidded to when the market crashed in 1987. It's now selling at a depressed price-earnings ratio of 5, says Lappin, and is trading below the company's book value of $31.25, with a "dividend yield of 6.4% that's well protected."

But Lockheed's "wild card," according to the bulls, is the company's growing satellite and space operations, which they believe won't be much affected by cuts. Lappin argues that U. S. forces in Saudi Arabia require the utmost in defense-electronics systems, such as classified-communications and intelligence satellites. Last year, space operations alone accounted for $3.1 billion of total revenues of $9.9 billion.

BIG LIFT. Moreover, Lockheed's C-5B transport planes, which the company stopped producing last year, may be resurrected, says Gary Reich, an analyst at Shearson Lehman Brothers. He explains that U. S. forces in the Mideast lack the big-lift capability that could swiftly transport heavy military equipment, such as tanks. Lockheed's C-5B could provide that capability, says Reich, which would be particularly vital if a shooting war breaks out.

Reich thinks Lockheed's earnings will take off starting late this year and grow well into next year. He expects earnings of $5 a share this year and $5.45 in 1991—up sharply from last year's 10¢, which was affected by write-offs totaling $465 million.

Meanwhile, investors can look forward to another kicker: NL Industries Chairman Harold Simmons is still unrelenting in his quest to gain control of Lockheed. Simmons, who owns 19.8% of the stock, lost a proxy fight to install his slate of directors at the shareholders' meeting in March. He has filed a lawsuit against management, claiming that the poison pill it instituted, which makes a hostile takeover of Lockheed prohibitively expensive, is illegal. Simmons says NL Industries will boost its stake if it wins the suit.



LOOSENING POSNER'S IRON GRIP

Shareholders of DWG, one of the companies controlled by feisty Miami Beach financier Victor Posner, are among those who have been clobbered in this market. The stock of the miniconglomerate, which owns Arby's and Royal Crown, is down to 3½ from 12 six months ago.

"Except for Posner's tight control of the company, there's no reason for the stock to fall that steeply," says Mike Connor, a vice-president at Fahnestock. While he says Posner runs DWG with "an iron hand," he notes that the market has ignored last month's court settlement between Posner, who controls some 46% of DWG, and Granada Investments. Granada had sued DWG for not taking seriously its $22-a-share buyout offer. Under the settlement, U. S. District Court Judge Thomas Lambr will handpick three outside candidat for the DWG board. It also reimburs Granada $5.5 million for expenses.

Connor says naming three outsi directors is a victory for DWG's sha holders because these directors v head the audit, compensation, and tercorporate-transactions committe Together, these committees cont DWG's expenses. "That will stop Posn from taking unfair advantage of DW finances," says Connor. At the sa time, he adds, the new directors mig prod DWG into selling off assets. shareholder's meeting, the first sin 1986, will be held Oct 12.

Analysts estimate a breakup va of $15 a share. Several franchisees Arby's Restaurants are said to be terested in buying Arby's, and Con says beverage maker Royal Crown potential bidders waiting in the win

SUDDENLY, GANNET MAY BE IN PLAY

The stock hasn't been acting it, but media giant Gannett, wh $3.5 billion in revenues last ye may be a takeover candidate. Salom Brothers, which is shopping for a b er for the 10% stake owned by Gannett Foundation, isn't likely have to travel far. The betting is t several media and entertainment co panies are interested.

Gannett owns the fast-growing d *USA Today*, 81 other dailies in states, 10 TV stations, and 16 radio tions. It was virtually put in play w Allen Neuharth, the former CEO of company who is the chairman of Gannett Foundation, plunked its stake on the block. But he wants to at a premium. When the Gannett c pany offered 33⅞ a share on S 14—that day's market price—N harth spurned the bid.

Gannett's assets "represent a col tion of properties that simply don't come available very often," s Charles LaLoggia, editor of *Spe Situation Report*, a newsletter t focuses on takeover targets. Ever this uncertain environment, says Loggia, "Gannett is one of the gen takeover stocks"—despite the a takeover defenses it adopted in M Mary Ann Winter, an analyst at Br Brothers Harriman, puts Gann breakup value at $55 to $60 a sh Gannett Vice-Chairman Doug Mc kindale says "the door is open" further talks with Neuharth.

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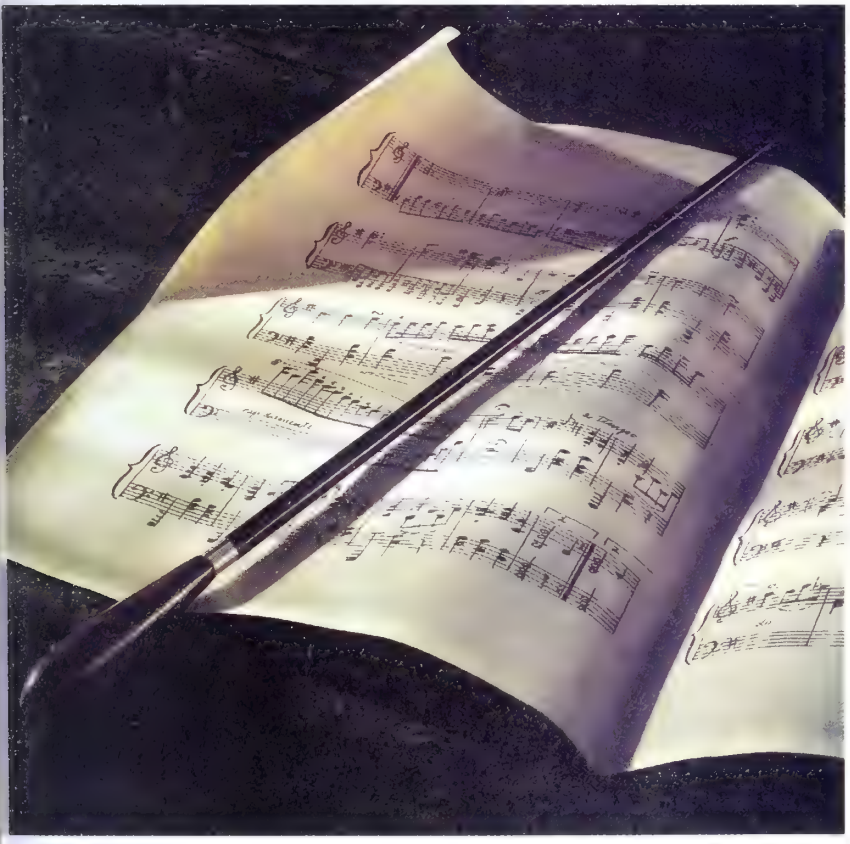

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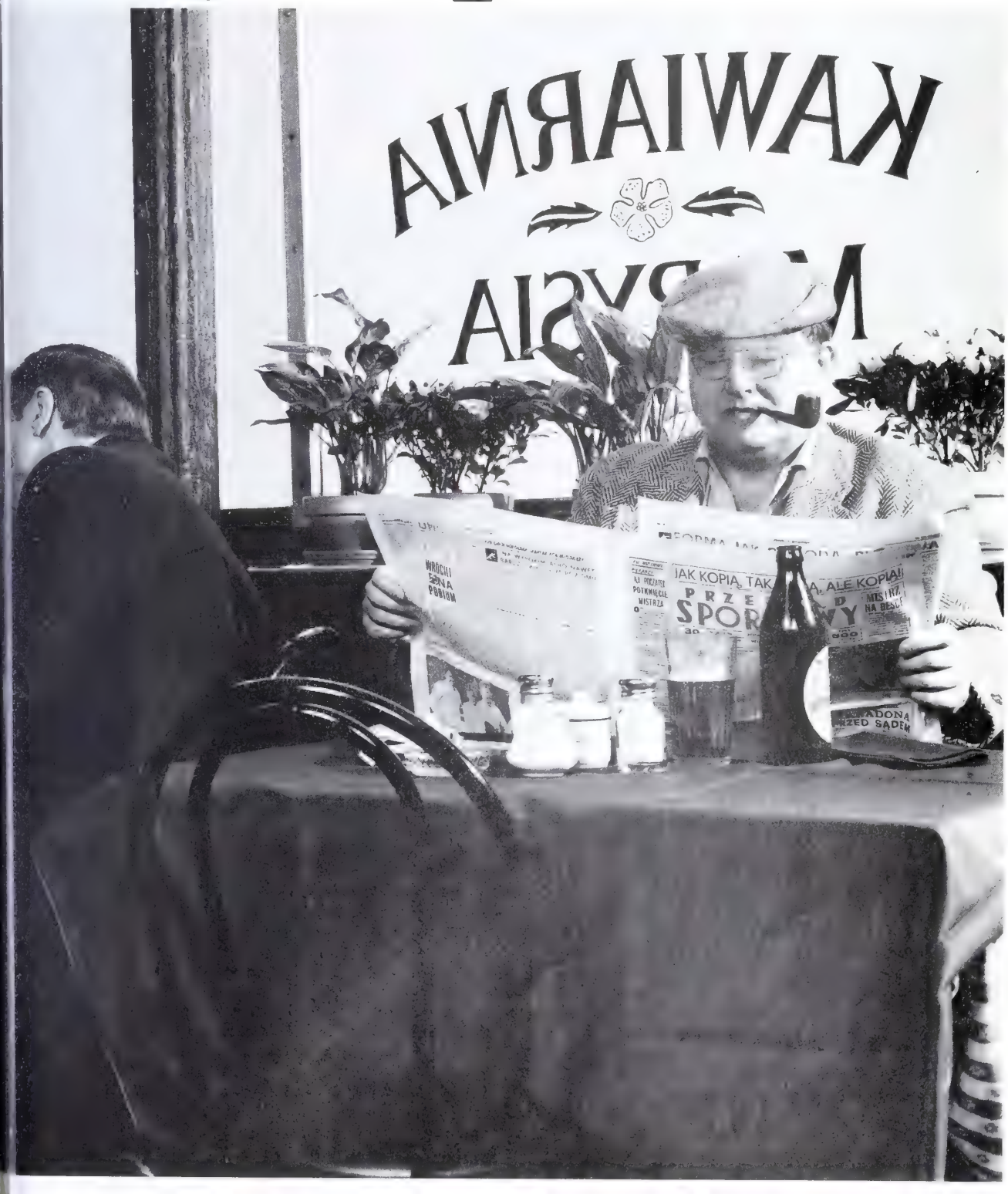


STEP ONE FOR CRAIG McCAW'S NATIONAL CELLULAR NETWORK

His master plan sounds promising—but it could still be undone by his finances

It took just one year for Craig O. McCaw to fall from grace as prince of the cellular telephone industry. Wall Street at first lauded the 41-year-old entrepreneur for his bold expansion plans. Then they focused on the price—specifically, the $3.3 billion in long-term debt to buy a controlling share of LIN Broadcasting Corp.'s plum properties. With banks growing wary of cellular lending and recession looming, McCaw Cellular Communications Inc.'s stock has plummeted—from 47 last year to a recent three-year low of 14.

Wall Street may be daunted, but not Craig McCaw. While accountants look at his lopsided balance sheet and shudder, McCaw is going ahead with his long-stated dream of creating a seamless network linking the nation's local cellular systems. "We're moving from squishy concepts to concrete action," he says.

SWITCH SWITCH. The first phase is fairly modest: The Kirkland (Wash.) company on Oct. 3 announced that it's going to make digital switches from an L. M. Ericsson-General Electric Co. joint venture the standard in most of its major markets. That way the systems will be able to easily pass calls from one McCaw franchise to another. A San Francisco customer visiting New York would automatically receive calls made to the cellular number back home. To do that now, the caller needs to know where the traveler is and then dial that city's 10-digit "roaming" code—in addition to the customer's regular number.

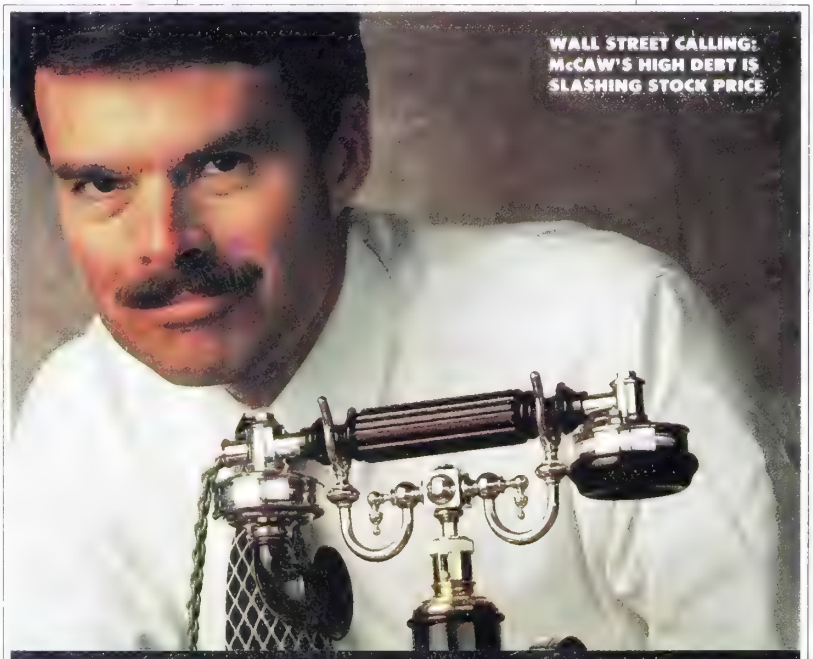
Smoother interconnections won't come cheap. McCaw, with some help from 52%-owned LIN, plans to spend $170 million on Ericsson-GE gear to replace Motorola switches in the New York-New Jersey market and AT&T switches in the Pacific Northwest. McCaw already has Ericsson switches in California and Florida, where it has large market shares. The new standard will also let McCaw customers get calls in Canada through a deal with Rogers Cantel Inc., whose national cellular network already uses Ericsson gear.

Although McCaw is standardizing on Ericsson-GE to move quickly, it doesn't want to rely on one supplier forever. it is strongly backing efforts with cellular operators to establish standards for cellular links. That way a national network could be assembled with switches from many different suppliers. A customer could receive calls on any cellular system in the country without the caller having to use roaming codes or even know where the customer is. The standards for such a network have been agreed upon. McCaw hopes to speed up the process by using it in its own network starting next year.

That leaves one considerable hurdle in the path of a truly national network: Cellular systems operated by the seven regional Bell phone companies cannot participate because of strict regulations limiting their involvement in long-distance networks. Still, the Baby Bells are hopeful that that will change soon. Earlier this month, U. S. District Judge Harold H. Greene instructed the Justice Dept. to investigate a request by the Bells for a rule waiver, and Justice in the past has expressed support for the Bells' position on this issue.

LOST EDGE. If the initiative effort pays off, McCaw will be able to promise its customers a national network. But so will every other cellular carrier—even those that didn't leverage themselves to the teeth to buy franchises far and wide. "You don't necessarily have to own all those territories to do that," says Forrest E. Miller, vice president of Pacific Telesis' PacTel unit.

McCaw executives concede that



WALL STREET CALLING: McCAW'S HIGH DEBT IS SLASHING STOCK PRICE

McCAW'S NATIONAL STRATEGY

- Install the same type of switches in most major McCaw markets so customers can have calls forwarded to them when they travel between them
- Work with competitors to promote a national system so customers receive calls wherever they travel, no matter what brand of switch is used or who operates the local system
- Use national coverage as a selling point to land corporate clients, which are less price-sensitive and want extra services such as voice mail

DATA: BW

Good ideas do grow on trees.

LOWE LURZER

Nature thinks of everything. In the case of the coconut, a fibrous husk keeps it from breaking when it falls to the ground. Along the same lines, Schott's coated "Duran" glass bottles have a special protection to keep them from shattering.

n if the glass breaks, 're is no leakage. ott's bottles have a stic coating to keep uable fluids contained ' to protect people inst hazardous micals.

When a ripe coconut falls from the tree, the drop can be as much as a hundred feet.

_____ It would certainly break if nature hadn't provided it with effective, built-in protection. The thick, fibrous husk encasing the hard-shelled nut cushions the soft core of meat in case the landing is bumpy.

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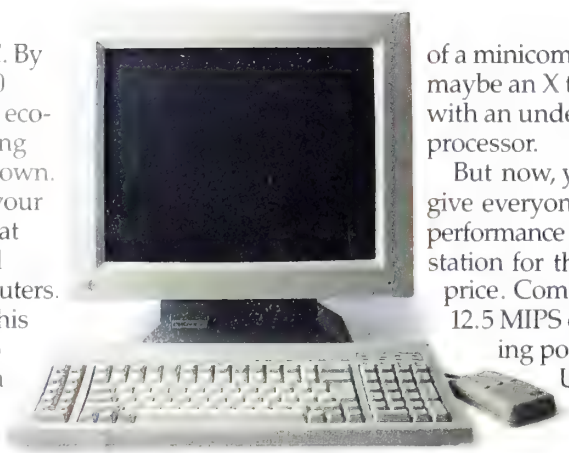

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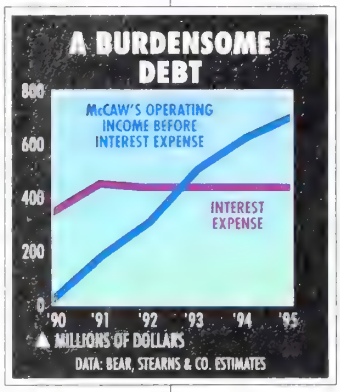
dustrywide arrangement will take away an edge they have in making long-distance connections, but say they don't mind. They argue that automatic call forwarding will stimulate an increase in traffic that will benefit all cellular carriers. As the biggest, McCaw figures it will gain the most. "What's good for cellular is good for McCaw," says Vice-Chairman Wayne Perry.

With a national network in the offing, McCaw is already shifting marketing gears. It's pushing to sign big companies to lucrative nationwide agreements. In addition to cellular service, McCaw hopes to sell add-ons such as voice mail and call waiting. Already, McCaw's sales to companies with more than 1,000 employees have risen to 12% of revenues from 2% two years ago.



IN THE RED. It all sounds promising. But the reality could still be overtaken by McCaw's finances. Lately, results have exceeded expectations. Revenues doubled to $242.4 million in the quarter ended June 30 and operating cash flow rose for the eighth straight quarter, jumping 447%, to $63.4 million. And the number of subscribers rose 62%, to 963,000—faster than the 50% industrywide growth expected this year. But McCaw remains in the red—and analysts expect it to be until 1993 (chart).

And McCaw can't fall far behind on its timetable. As projected, McCaw's interest expense of $360 million this year far exceeds its earnings from operations, forcing it to tap its $3 billion credit line to make interest payments. The line is already down to $1.4 billion. And in 1995, McCaw is committed to buying the 48% of LIN it doesn't already own—or sell its majority stake. If it buys, it may have to raise as much as $5 billion, and covenants on its credit line constrain how McCaw can raise more money. Still, the company says it has plenty of room to maneuver, noting among other things, that there's no obligation to buy the LIN shares. "We can sit tight," says Peter L. S. Currie, McCaw's new chief financial officer.

That is, if nothing goes serically awry. No one knows how well cellular demand will hold up in a recession, or an economic downturn will likely depress use. Already, the average monthly calling volume per subscriber is declining because cellular is now attracting customers who make fewer calls. On the other hand, cellular phones aren't the perks for executives anymore. McCaw says more cellular phones are installed in pickup trucks than any other type of vehicle. "I don't know how I'd survive without it," says one pickup driver, Larry Stone, president of Pioneer Metal Finishing Inc. in Seattle.

What worries Wall Street is that cellular is still a crapshoot. No one knows how big the market can be—how many people will pay a premium for mobility. Assuming that the number would be huge, McCaw paid a big price to get No. 1. "We've cut out a big task for ourselves," McCaw says. By continuing his drive for a national cellular network, Craig McCaw is trying to show that his ambitions aren't a thing of the past.

By Robert D. Hof in Kirkland, Wash., with Peter Coy in New York

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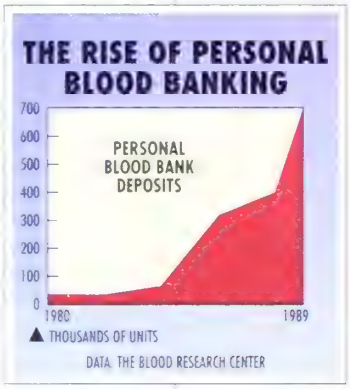
HEALTH

FROZEN BLOOD IS SUDDENLY A HOT BUSINESS

Fear of tainted transfusions is giving birth to an industry

When Ellen Bugg fell and broke her hip two years ago, her greatest fear wasn't surgery, it was the transfusions she would need. But the 68-year-old retiree had three pints of her own blood in frozen storage at Personal Blood Storage of Orlando Inc. "It was comforting to know she would come out of surgery without any disease," says her husband, Willard.

Over the past six years, new tests and donor screening have reduced the chances that the nation's blood supply will be tainted by such diseases as AIDS and hepatitis. But, like the Buggs, many people aren't convinced. They are flocking to a form of blood insurance—storing their own. Autologous blood bank deposits have skyrocketed since 1982, and last year alone they doubled, to 700,000 pints. This practice may be contributing to shortages in the public blood supply and sometimes may not work as well as it sounds. Still, experts expect it to keep growing. Says Dr. Douglas M. Surgenor, senior investigator at the Center for Blood Research in Boston: "More people are responding to concern about the safety of the blood supply by storing their own."



Doctors started all this after scientists discovered in 1982 that the AIDS virus can be spread by transfusions of tainted blood. Hospitals and blood banks began offering programs that charge consumers about $75 a pint to store their own fresh blood up to 42 days—the limit set by the Food & Drug Administration. But for major operations, most people couldn't give enough within the time limit to store up what they would need, says Dr. Peter D. Issitt, a professor of pathology at Duke University. He adds: "The blood donations also weakened patients just when they should have been building up strength."

BACKUP SYSTEMS. So commercial companies stepped in with the answer—freeze the stuff. Starting with New York-based Daxor Corp., more than 20 companies have sprung up since 1985 to store frozen blood for a fee—an average of $10 a month per pint. In a process similar to a normal donation, a client's blood is drawn and tested, then labeled and stored. Most freezers use two or three backup power systems to make sure the blood stays frozen. The companies then pay outside shippers to make deliveries—usually within six hours.

Proponents cite several reasons than disease to store blood. Mainl cause misconceptions surrounding have scared off donors, the U. S. supply has remained at about 13.4 lion units since 1986. The resulting shortages can cause postponemen elective surgery for people who de on public blood supplies. At the same time, insurers have pressured doctors to think twice before ordering optional blood transfusions that can help patients recover faster. The solution in all these cases: Bank your own blood. And patients who receive their own blood recover faster because their bodies don't have to adjust to a stranger's.

FITZGERALD

Still, the fear of disease remains the major motive behind the trend. In fact, a personal tragedy persuaded James P. Fitzgerald, a Virginia real estate developer, to found Miami-based Personal Blood Storage of America Inc. In 1985, his stepmother died from hepatit had contracted from a blood trans 20 years earlier. That set Fitzgera on a "crusade to get rid of a ver science."

PBS still isn't profitable, since F ald spent $10 million and the com first two years developing large more reliable freezers. But PB takes in more than 1,000 pints of b

SHOULD YOU BANK A FEW PINTS?

The chances of contracting a disease from a blood transfusion are slim: Just 1 in 500,000 for AIDS, 1 in 100,000 for most forms of hepatitis. But for many people, the risk is still too high. So they are storing their own blood. If you are scheduled for an operation, making a deposit that will be kept for you at a local hospital or public blood bank for up to 42 days is an easy decision. But if you're thinking of freezing your own blood to have on hand just in case, there is much more to consider.

In addition to safety, blood-storage companies claim to offer other advantages—primarily access to your blood anywhere, anytime. If you have a rare blood type, such as AB negative, that could be important. And no matter what your blood type, you wouldn't have to postpone elective surgery even during periods of blood shortages. Should you need emergency surgery while away from home, most companies guarantee they'll rush blood anywhere within the U. S. Personal Blood Storage of America Inc. has even opened an account with Federal Express Corp.

Still, you'll have to decid these benefits justify the average surgery, you need o pints. Storage fees at priv range from $8.50 to $12.50 a pint. On top of that are defr transportation costs, which from $35 to more than $100 Blood Institute in Los Angel $56 to rush blood from Los New York. Insurance comp only reimburse what it would to use the local blood supp about $150 per unit.

The biggest drawback o blood is that in real emerge rush service may not be all

ch, compared with the total of 2,225
it collected from 1987 to 1989. By
mber, the company expects to add
new facilities to its eight existing
ions across the country. And in
h, PBS signed a marketing agree-
with SmithKline Beecham's divi-
of clinical laboratories, which will
et the service to doctors. Fitzgerald
o going abroad: Brazil has licensed
o open three offices in 1991.

TRAGEDY

The FDA, which licenses and regulates blood banks, keeps a close watch on the blood freezers. It limits storage to 10 years. While the FDA does not endorse the process, "the fact that it regulates it is a clear indicator that it is a benefit to the medical industry," says Dr. Joel M. Solomon, director of the agency's Transfusion Science Div.

But not everyone thinks so, especially directors of traditional blood banks. They accuse the blood-freezing companies of playing on fear of AIDS. "Patients should not be misled," says Dr. Toby Simon, president of the 1,100-member American
iation of Blood Banks. "Our sys-
s the safest it's ever been."
problem is that it isn't foolproof.
screening for AIDS was implement-
1985, some 15 transfusion-related
cases have been reported to the
al Centers for Disease Control in
ta. And 124 transfusion-related
itis cases were reported in 1989.
t record has drawn regulatory at-

panies guarantee delivery within
But by then, it might be too late.
Margot Kruskall, blood bank di-
Boston's Beth Israel Hospital: "I
re myself with a trauma case
r a courier to deliver blood."
, for some the decision is easy.
stockbroker John Braddock, 36,
three pints of blood stored at
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or himself but for his two chil-
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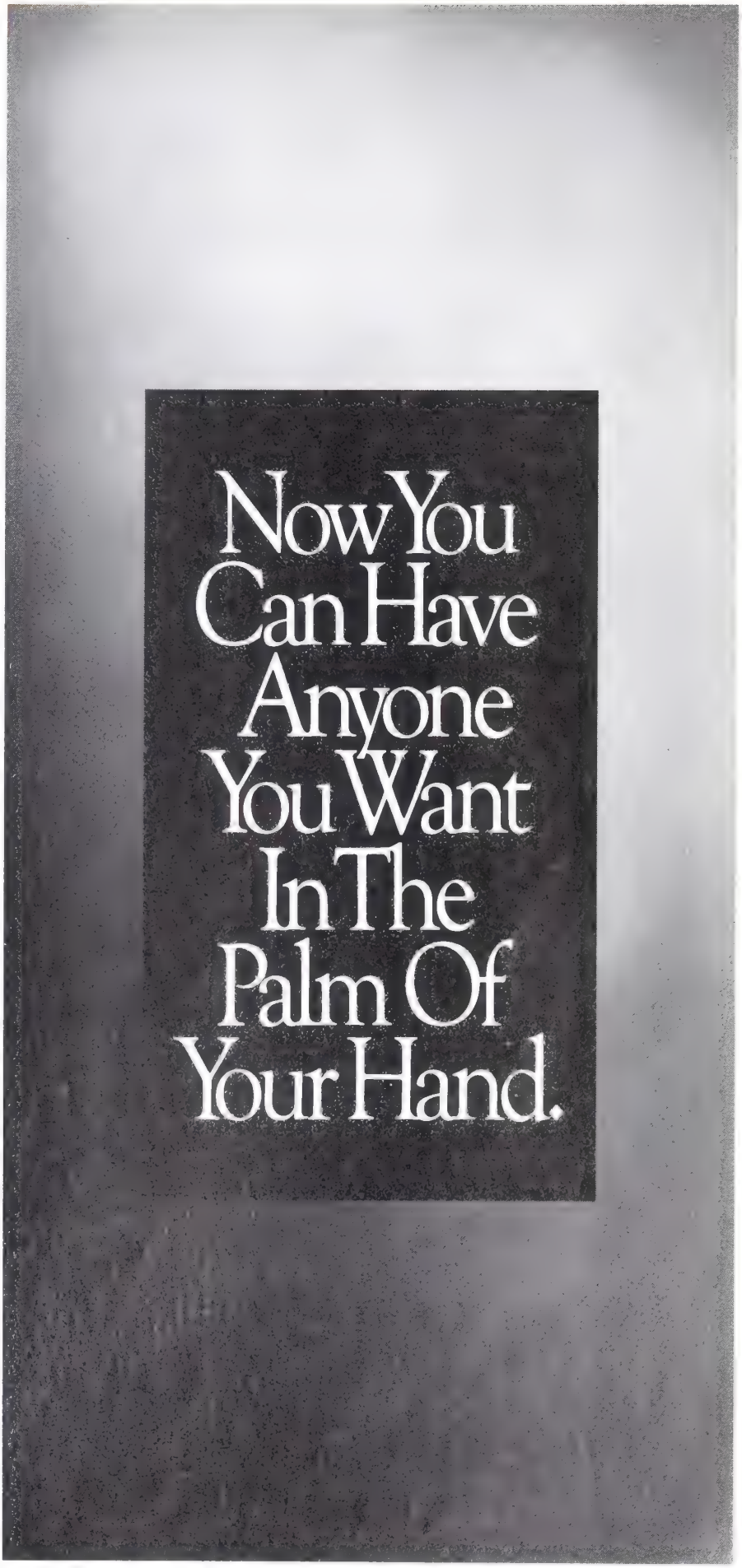
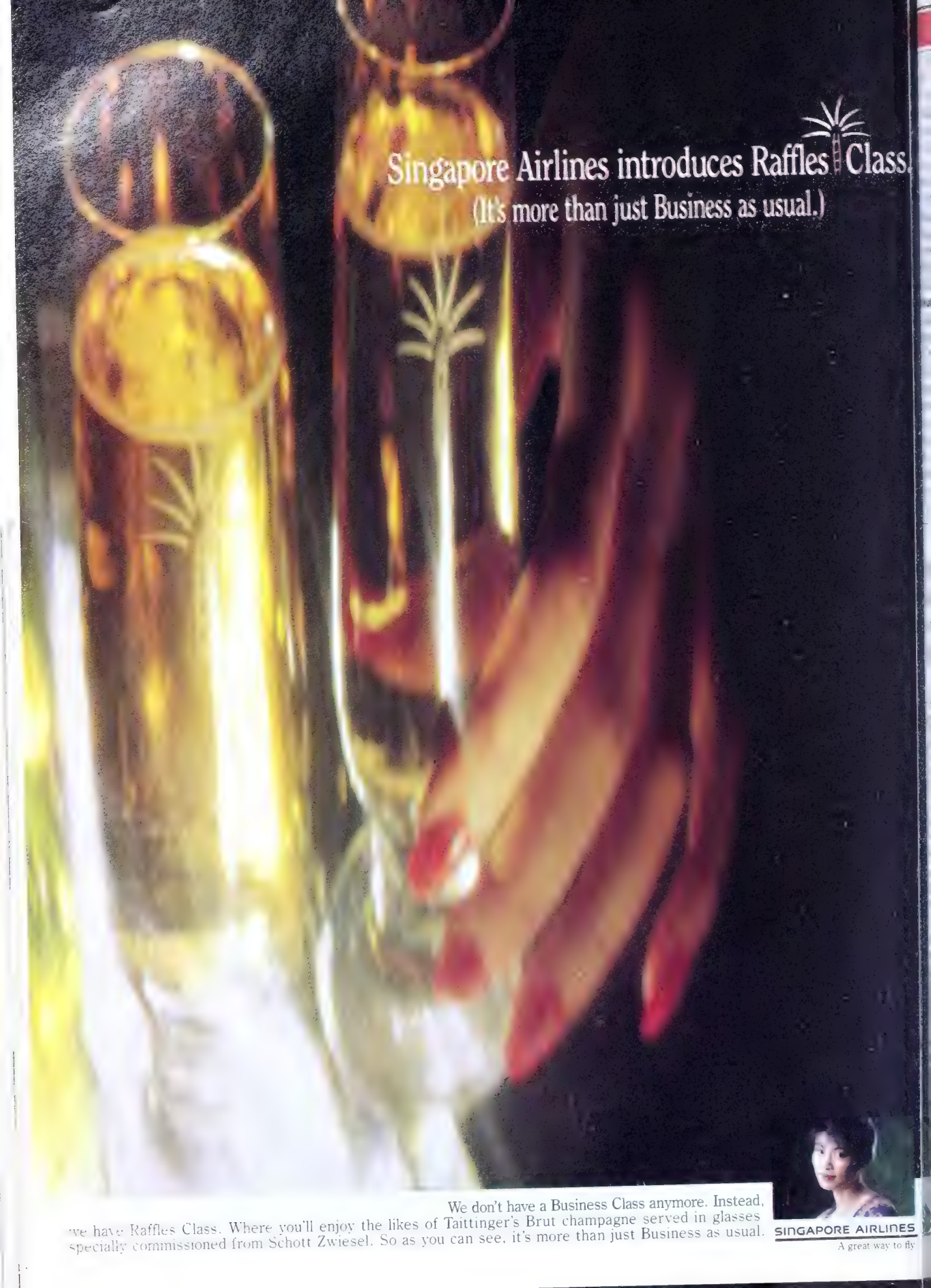
all price to pay for my peace of
ddock says. It's a sentiment that
g increasingly widespread.

By Irene Recio in Miami

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n. In May, an FDA investigation
ɔted the American Red Cross to
its center in Washington, D. C. The
y had traced 235 transfusion-relat-
ɔs cases stretching back a decade
to that location. And since testing
nplemented, 15 more patients with
from there have tested positive for
IV virus, which leads to the full-
disease. Earlier this year, the Red
closed a facility in Albany, N. Y.,
pressure from state regulators
riticized its sanitary conditions and
labeling procedures.

ɔOKUP. At a July hearing of the
subcommittee on oversight and
igations, moreover, the FDA cited
ed Cross, which supplies more than
f all blood in the U. S., for misman-
everything from labeling to safety
lures and for making inadequate
its computer systems. They found
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ne of the Red Cross's 54 indepen-
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s with inventory. "There's a lot of

blood-freezing craze isn't 'eeping everyone away. e startup closed last year for lack of business

uacy in the industry," says Ste-
. Sims, special assistant to Repre-
ive John D. Dingell (D-Mich.), head
subcommittee.

ese accusations distort the pic-
insists Dr. Jeffrey McCullough,
esident for biomedicine at the Red
His group will present its defense
rings before the subcommittee lat-
year. But McCullough adds that
d Cross is centralizing its manage-
and inventory systems.

blood-freezing craze isn't sweep-
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rketing. And just 25% of some
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r Communications have taken ad-
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As part of the deal, Warner pays
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e first two pints. Even Paul Wil-
Time Warner Inc.'s director of
ee benefits, didn't sign up. "This
high on my list of priorities," he
'I should also go on a diet and
But for many, like Ellen Bugg,
g blood is at the top of the list.

By Irene Recio in Miami

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evelopments to Watch

) BY EMILY T. SMITH

SH WIND SAILBOATS?

Sales of new sailboats are almost dead in the water. With few innovations to lure buyers, purchases have plunged 50% in the past decade. But a team of designers led by Olaf Harken, vice-president of marine equipment maker Harken Inc., dreams of reviving demand. They're building the Amoco Procyon, a 65-foot cruising yacht that showcases innons in materials and design from marine companies, ng Catalina Yachts and Amoco Chemical.

n the Procyon sets sail early next year it will sport utton-operated, self-furling sails on its A-frame mast. ulic winches and state-of-the-art technology such as an ilot will make it so easy to control that a crew of three nandle it, even under stormy conditions. And an auto- wing-shaped keel should help Procyon sail up to 20% than a standard boat of the same length. At $1.2 million, yond the means of most sailors. But the team hopes s of smaller vessels will pick up some of the innovations.

FEE DRINKERS HAVE NO UNDS FOR CONCERN

e's a little reassurance to swallow with your morning p: In recent years, some studies have cautioned that drinking could do more than give you an occasional case jitters. One such study, for instance, found a better than l risk of heart attack among imbibers of five or more day. Such reports had raised fears that coffee might y require health warnings like those on liquor, ciga- and saccharine.

a new study published in the Oct. 11 issue of the *New nd Journal of Medicine* may put a lid on such worries. ensive survey by researchers at Harvard University l School and Erasmus University Medical School, the lands, found no increased risk of heart disease or due to coffee consumption. In fact, they reported that k of heart disease among those who drank up to four day was no higher than for those who drank no coffee. hat's different this time? Unlike in earlier studies, 90% coffee drinkers didn't smoke cigarettes, a contributor to lisease. And the report covered more than 45,000 men 0 to 75—many more than have been analyzed in past .

RUNWAYS, THE LIGHT CUBE LD REPLACE THE LIGHT BULB

mote locations, providing power for lights can be a lem. But at Sandia National Laboratories, researchers ave found the answer to lighting out-of-the-way spots. re working on self-contained lights, powered by radioac- tium, that could efficiently illuminate remote airport runways or space stations. Bulbs made from sealed tubes of tritium gas that are coated with phosphors already are used in emergency-exit lights. But the new lights being developed at Sandia are brighter and more durable. "You could put a bullet through them, and only the bullet hole itself would go dark," says Sandia researcher Clifford Renschler.

The lights are made of mostly hollow, transparent glass cubes. Phosphor particles embedded in the sponge-like glass emit light when excited by electrical or other energy. The decay of radioactive tritium atoms, which are chemically bonded to the cube, produces radiation that excites the phosphors, which in turn emit light. While light escapes from the cube, the researchers say that almost harmless radiation doesn't. If one of several U. S. companies that are interested in the technology collaborates with Sandia, the lights could be on the market within two years.

PUTTING RADAR TO WORK FOR THE HOMICIDE SQUAD

Robert R. Unterberger, a professor of geophysics at Texas A&M University, normally uses his ground-probing radar to chart subterranean salt deposits or hunks of granite. But earlier this year, he got an unusual request from a Houston policeman. Could the high-tech instrument find the buried bodies of murder victims? Unterberger was intrigued—if dubious. He took his equipment to a local cemetery, expecting that it would take a lot of work to tune the radar for the new job. But to his surprise, he says, "we could spot the graves right off the bat."

The radar doesn't actually see bodies. Instead, it espies disturbed soil. That makes the approach promising for finding recently buried victims, says Unterberger. "If the police have a tip that a body is buried in a field—and the field isn't too big—we could find it." The geophysicist is now talking to police departments about using the equipment.

THIS AEROSOL IS EASY ON THE OZONE LAYER—AND SAFE, TOO

After chlorofluorocarbons (CFCs) were found to harm the earth's ozone layer, the aerosol industry shifted to hydrocarbon propellants. They may be less damaging to ozone, but they're also flammable and contribute to global warming and smog.

Now, an upstart New York company called Airospray International has thrown down the gauntlet. It is launching a line of air fresheners, spray starch, body sprays, and nonstick cooking spray that its founder, Lester H. Cohen, insists is less harmful than aerosol products that use hydrocarbon propellants. His secret: recycled carbon dioxide, which is captured as a byproduct of industrial processes and injected into cans.

Cohen faces an uphill battle to win shelf space and woo consumers from aerosol favorites. But he thinks he'll be a success if he spurs the $14 billion industry to shift to CO_2. "We've made a better product," he says. "It behooves the aerosol industry to compete with that."

MAKING THE MOST OF THOSE ALL-IN-ONE ACCOUNTS

It started in 1977, when Merrill Lynch got a blinding glimpse of the obvious: Why would a customer keep a checking and savings account in one place, a mutual fund at another, buy brokerage services at a third, and get a charge card somewhere else—if they were all available at one place? So Merrill launched its Cash Management Account.

For an annual fee, a customer got all financial accounts linked together, and funds were transferred from one account to another according to prearranged instructions. If shares of stock were sold, or dividends received, the income would be reinvested in a money-market fund. Checks could be written against the value of that fund—or against the value of the securities. A monthly statement summed it all up.

It was terribly convenient, and it spread like wildfire. Lots of brokerage firms began creating asset management accounts (AMAs) under a variety of titles, since Merrill had trademarked the "cash management" name. But by any name, AMAs are popular. A recent survey by the Better Business Bureau in New York showed that 18 top brokerages and banks now offer a total of 27 different AMAs, compared with 16 in 1985. Market leader Merrill estimates that around 2.5 million Americans hold AMAs.

FINE-TUNING. Originally, AMAs were intended for individuals, but quite a few firms now offer packages tailored for small businesses: Dean Witter Reynolds' has electronic check-writing capability, for example, for companies that need such a service for payrolls. Merrill, whose flagship CMA is for investors with at least $20,000 to put in, has since added the Capital Builder for the "emerging investor." It requires a minimum investment of only $5,000.

Of course, the bells and whistles increase with larger accounts. Shearson Lehman's Preferred Client FMA (minimum: $200,000) offers a Gain/Loss Analysis on each statement that lists your potential profit or loss should you sell any given holding that month.

But not all AMAs are created equal (chart). Quick & Reilly's offer of no annual fee and low broker commissions sounds great, but if you plan to pay your monthly bills by check, their program isn't for you—the minimum check you can write is $500. Customers of Schwab One, offered by discount brokerage Charles Schwab, can get 10% taken off commissions if they place orders using a personal computer and modem.

Here are some features to examine before you plunk your money down:

■ **Transaction cards.** Most of the Visa and Mastercards offered by [illegible] aren't the same as the [illegible] versions: They don't [illegible] interest on your outstanding balance because there [illegible] is one. Many accounts charged for an item the [illegible] transaction goes through if you plan to make extensive use of your AMA card, [illegible] out those offered by Oppenheimer or Fidelity. These several other account charges once a month, [illegible] ing you a little float.

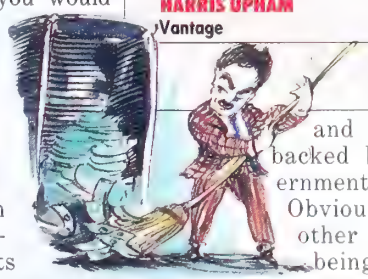
■ **ATM services.** Many [illegible] offer automated-teller [illegible] chine privileges with [illegible] Visa or Mastercards, [illegible] customers tap money-[illegible] funds or borrow against [illegible] rities at the touch of a [illegible] But many also charge a [illegible] $1 per transaction; Smith [illegible] ney charges customers [illegible] of funds taken, or a min[illegible] of $2. Before you start [illegible] your AMA as a huge cash [illegible] chine, double-check. [illegible] might be better off mak[illegible] ing a regular bank account [illegible] the side.

■ **Sweep.** Dividends, [illegible] gains, and bond-interest [illegible] ments entering the ac[illegible] are all "swept" into [illegible]

AMAs: SHOP AROUND AND COMPARE

Firm/ Program	Annual fee	Minimum to open	Number of money market options	Brokerage services	Transaction cards	Bill paying
A.G. EDWARDS & SONS Total Asset Account	$50	$20,000	3	Full	Visa debit	No
CHARLES SCHWAB Schwab One	0	5,000	2	Discount	Visa debit	No
DEAN WITTER REYNOLDS Active Assets Account	80	10,000	4	Full	Visa debit	Yes
FIDELITY INVESTMENTS Fidelity USA Ultra Service Account	60	25,000	3	Discount	Visa Gold or Master Gold	Yes
MERRILL LYNCH Cash Management Account	80	20,000	6	Full	Visa, Visa Gold	Yes
OPPENHEIMER Executive Assets Account	100	20,000	3	Full	AmEx Gold	No
PRUDENTIAL BACHE Command Account	75	15,000	5	Full	Visa debit	Yes
QUICK & REILLY Cash management service	0	500	1	Discount	No	No
SHEARSON LEHMAN Financial Management Account	50	10,000	5	Full	AmEx Gold ($50 extra)	No
SMITH BARNEY, HARRIS UPHAM Vantage	40	10,000	4	Full	Visa Gold ($60 extra)	No

DATA: THE BETTER BUSINESS BUREAU OF METROPOLITAN NEW YORK, COMPANY REPORTS



funds to earn interest. e frequency of sweeps e minimum amount of erest-earning, or "idle," equired to trigger one Dean Witter sweeps or amounts above $1. heimer also sweeps dai- only for amounts over 0—otherwise weekly. case scenario: An Op- mer Executive Assets it client whose account n $9,999 the day after ekly sweep, 52 weeks w, would lose roughly interest, assuming a market interest rate of

in most cases, the dif- e between daily and sweeping doesn't add nuch. With a minimum) (a more typical level ly pickup), you would t earn an 24 a year.

ey-market- AMAs gen- offer from o six funds oose from. nclude a cash with short- instruments and a fund backed by government bonds. Obviously, all other things being equal, go with the fund offering the best rate—the current average monthly yield is about 7.3%.

Investors eager to shelter income might consider an AMA with tax-exempt funds that invest in munis. And if you live in a high-tax state, look for a state-specific fund such as the Kidder Peabody's Premium Account's California Fund, which offers residents triple-tax-exempt income, that is free from federal, state, and local taxes.

■ **Check writing.** Free, unlimited checking is the norm. But many accounts either don't return canceled checks or charge a fee to do so. Bear this in mind if you need old checks for tax records or other bookkeeping.

■ **Loans.** Most AMAs let you borrow against your securities. But some will grant credit lines above the margin-loan value of their stocks.

The aim in choosing an AMA is not to see how many free services you can cram in. The trick is finding which account best suits your needs and the size of your portfolio. An AMA should offer the perfect combination of a brokerage account, checking account, and charge card—all that and money-market interest, too. *Andrea Rothman*

Smart Money

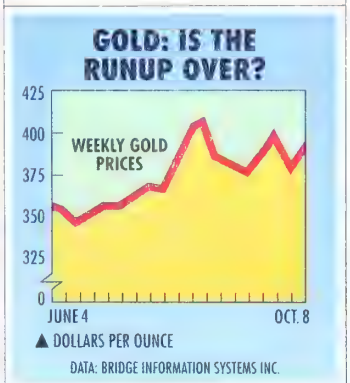
GOLD HAS BEEN SHINIER —BUT IT'S STILL SOLID

ring world crises, in- estors often get gold But the metal's erratic mance since the Iraqis l into Kuwait has set he gold bugs ajitter. "I l have thought gold have done better since ug. 2 invasion," says r Bryan, portfolio man- f the $127 million-asset gton Goldfund. "But time it's perked up, it's smacked down again." first, gold seemed to be true to form. After g to a four-year low of an ounce in June, gold closed as high as $415 g. 24. The surge gave ed gold mutual funds a tal return in the third er—partially offsetting -month decline of 13%.

THE ROAD. But the ral- n't lasted. As of Oct. 8, was back below $395. some have profited by ng it on the upswing, olatility hasn't renewed ence in a market that has been slumping since 1987. Many pros say that unless a shooting war breaks out in the Persian Gulf, gold probably won't rise significantly for some time.

Longer term, however, some analysts see a glimmer of hope as the world economy weakens. In the past few years, investors have used currencies such as the Deutschemark or dollar instead of gold as a hedge against shaky stock markets. But the sagging greenback—and pressure on the mark from German unification—might make gold an attractive alternative.

Another possible stimulant: a decline in supply over the next few years since consumers pulling back from big-ticket buying may boost demand for gold jewelry. "You have an environment where all the characteristics gold thrives on are present," says Doug Groh, manager of IDS Precious Metals Fund. "A 5% to 7% annual price appreciation in the next five years is not unrealistic."



If you're looking to round out a portfolio, you probably can't go too wrong by investing in gold at current price levels. Just remember: If you buy bullion coins such as the American Eagle, you must factor in 6% dealer markups.

Gold equities might be a better bet. Although more volatile than bullion, they pay dividends. One of Groh's favorites is Corona. The Canadian company is selling at an estimated 1990 price-to-cash-flow multiple of about 9, vs. 15 for the industry and 25 for American Barrick Resources, a popular producer.

With U. S. Treasury notes yielding more than 8%, disaster hedges other than gold at this point promise a more lucrative return. But if you believe the yellow metal deserves a long-term place in your portfolio, now may be as good a time as any to go prospecting. *Amy Dunkin*

Collectibles

A TRIP THROUGH THE PAST WITH THE WPA

In 1935, the Works Progress Administration began the Federal Writers' Project with the worthy goal of taking writers off the relief rolls. For eight years, these New Deal scribes earned their keep by researching and writing 1,200 volumes of history, folklore, and social commentary. But by far the most popular project was "The American Guide Series," WPA's travel guides to the 48 states. Motorists snapped them up in the 1940s, only to gradually discard them as the interstate highway system was built. The final editions were reprinted as late as the 1970s.

Now, a new generation of readers and travelers is rediscovering these WPA guides. "They remind people of the good old days," says bookseller Joe Stein of Los Artesanos in Las Vegas, N. M. He is selling a set of all five printings of *New Mexico: A Guide to the Colorful State* for $150. That's double what he would have asked five years ago.

Despite the new interest, many WPA guides sell for as little as $20 to $45. That's because too many copies were printed to classify the books as truly rare, even 50 years later. But scarce books bring more substantial sums. Because a warehouse fire destroyed most of the first edition of *Idaho: A Guide in Word and Picture*, a copy in good condition can fetch up to $200. North and South Dakota guides are almost as rare. Other scarce WPA books include *Festivals in San Francisco* ($200), prized for its graphics, and *Galena* (Ill.) *Guide*, a bargain at $50. Novelist Nelson Algren worked on that one.

But it's a return to the byways of a simpler America, not investment, that draws most current WPA readers. And although some details are out of date, many of the pithy descriptions are still pertinent. "People use them almost as much as they collect them," says Donna Hudgel of Trails West bookstore in Louisville, Colo. She sells them to tourists retracing old roads such as Route 66 and even to treasure hunters searching for lost gold mines.

Other collectors simply like to read WPA guides for their interviews with ex-slaves and aging pioneers or for their charmingly wry 1930s style. These books weren't afraid to be opinionated or to deal with subjects not found in your traditional Baedeker—anything from labor management relations to the proper way to address a Southern matron. For example, *Copper Camp*, a 1943 guide to Butte, Mont., characterizes the town by day as "an uncorseted wench, dissipated from the night before." It includes a chapter on prostitutes, complete with names of brothels and fees—though the guide sadly notes the decline of such thoroughfares as "Venus Alley," where "a half-hundred girls" once plied their trade.

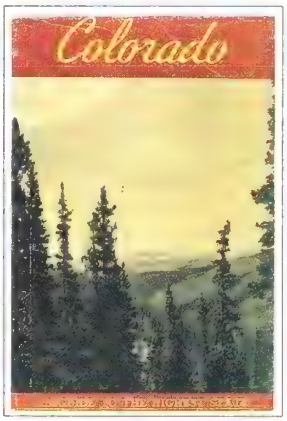
Much of the offbeat material is in what Hudgel calls the WPA's "oddball" books. Each state was expected to produce a general, utilitarian guide, but after that, local directors followed their own interests. The result was an eclectic output of pet projects that included *A Tour of the French Quarter for Service Men*, *Ghost Towns of Colorado*, *Lamps on the Prairie: A History of Nursing in Kansas*, and *God Bless the Devil! Liars' Bench Tales* from Tennessee. Many of these more obscure volumes, some priced at about $30, will be for sale around Thanksgiving, when major dealer Schoyer's Books (1404 S. Negley Ave., Pittsburgh 15217) releases a catalogue of some 220 titles.

At least 25 of the most popular city and state guides have been reprinted—mostly by university presses and Pantheon Books, which has four volumes in paperback editions, including guides to Illinois and Washington, D.C. There is also *New York Panorama*, a collection of essays about life in the Big Apple.

Usually issued with new covers and new introductions, these versions have little, if any, collector's value because they duplicate the original texts in their wonderful entirety.

The old McGraw-Hill building on West 42nd Street, which BUSINESS WEEK's home office singled out as "the ugliest West Side's most important edifice" in *The WPA Guide to New York City* (Pantheon Books, $12.95). The 1939 volume, whose staff included such young editorial assistants as named John Cheever, also describes Times Square as a district of glorified dance girls and millionaire playboys . . . dime-a-dance hostesses and pleasure-seeking crowds.

Now, there's a trip down nostalgia. *Sandra A*



"[In Leadville,] in a line of ramshackle cribs, green-painted cubicles extending from Harrison Avenue to the Pioneer Club, occupants sit at wide windows with hinged sections and call enticingly to passers-by; the unwary man who walks too close may have his hat snatched and have to go inside to regain it."
—Colorado: A Guide to the Highest State, 1941

OLD ROADS AND LOST MINES

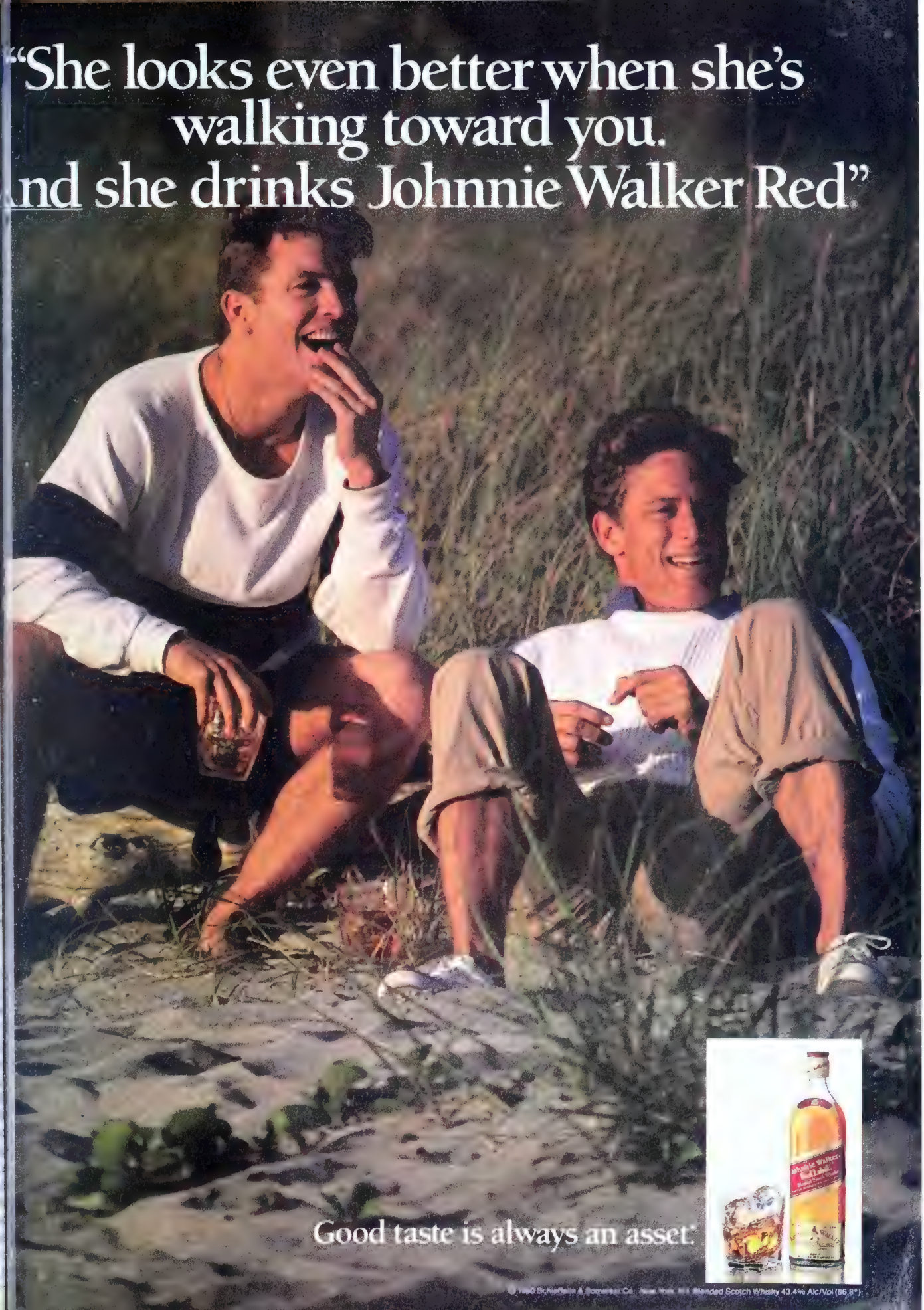
"Hard times accounted in large part for the fact that the [Chicago Century of Progress] exposition was a financial disappointment in its first year, but Sally Rand and her fan dancers accomplished what applied science had failed to do, and the exposition closed in 1934 with a net profit, which was donated to participating cultural institutions, excluding Sally Rand."
—Illinois: A Descriptive and Historical Guide, 1939

"Coon dogs are standard household equipment. . . . These dogs, with short names like Drum, Ring, Gum, Rip, Biff, and the like, are the pride of their owners, who think the coon dog should replace the American eagle."
—Tennessee: A Guide to the State, 1939

"If Los Angeles has been called 'the capitol of crackpots' and 'the metropolis of isms,' the native Angeleno can not fairly attribute all the city's idiosyncrasies to the newcomer—at least not so long as he consults the crystal ball for guidance in his business dealings and his wife goes shopping downtown in beach pajamas."
—California: A Guide to the Golden State, 19

At a Croatan, N. C. filling station, a kick-in-the-pants machine "has worn out fifty shoes in its service to tourists and citizens. If you feel that you deserve 'a good swift kick,' turn the handle. . . ."
—North Carolina: A Guide to the Old North State, 1939

"She looks even better when she's walking toward you.
nd she drinks Johnnie Walker Red."



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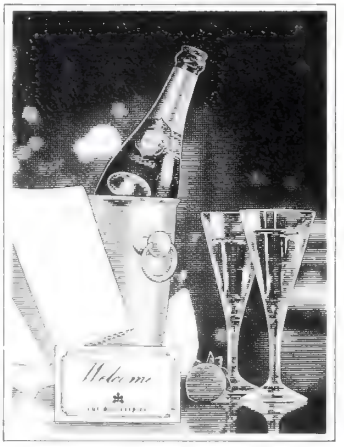

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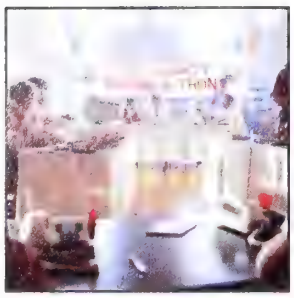
WHERE  good communication supports goo

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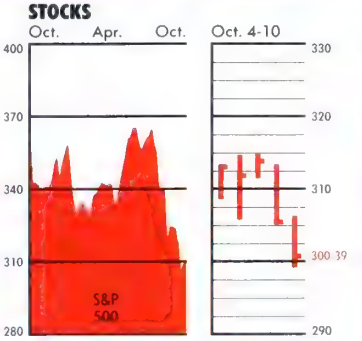
vestment Figures of the Week

TARY

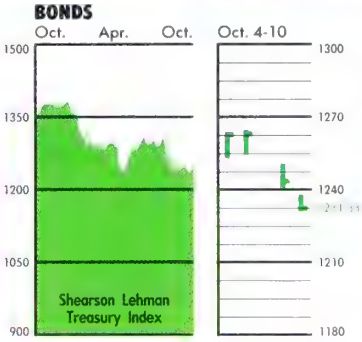
week. The Dow Jones average fell 116 points ys as traders bemoaned il prices above $40 a ith the economic tidings orse, the dollar slipped d low against the mark. d financial stocks were e most severely hurt; re- sistant issues, such as e stocks, performed n also began pouring mining shares, which had ing behind other stocks rgy sector.

STOCKS



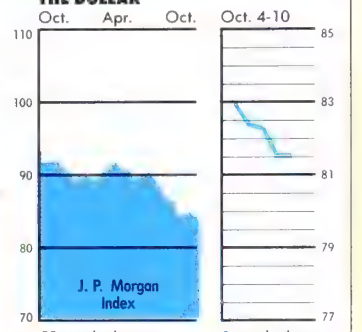
52-week change **–15.9%** 1-week change **–3.5%**

BONDS



52-week change **–8.7%** 1-week change **–1.8%**

THE DOLLAR



52-week change **–12.6%** 1-week change **–1.8%**

KET ANALYSIS

OCKS	Latest	% change Week	% change 52-week
IES INDUSTRIALS	2407.9	–3.3	–13.2
PANIES (Russell 1000)	155.0	–3.6	–17.8
OMPANIES (Russell 2000)	122.8	–4.1	–31.7
PANIES (Russell 3000)	163.9	–3.6	–18.7

STOCKS	Latest	% change (local currency) Week	52-week
(FINANCIAL TIMES 100)	2121.8	1.7	–4.4
NIKKEI INDEX)	23,495.1	4.5	–33.3
(TSE COMPOSITE)	3109.9	–2.2	–22.4

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	7.5%	7.4%	8.0%
30-YEAR TREASURY BOND YIELD	9.0%	8.9%	8.1%
S&P 500 DIVIDEND YIELD	3.9%	3.2%	3.2%
S&P 500 PRICE/EARNINGS RATIO	13.0	13.5	13.8

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 26-week moving average	341.0	342.3	Negative
Stocks above 26-week moving average	13.1%	15.1%	Positive
Speculative sentiment: Put/call ratio	0.68	0.53	Positive
Insider sentiment: Vickers sell/buy ratio	0.69	0.72	Positive

STRY GROUPS

BRIDGE INFORMATION SYSTEMS INC.

EEK LEADERS	% change 4-week	52-week	Strongest stock in group	% change 4-week	52-week	Price
CARE SERVICES	11.2	18.5	BEVERLY ENTERPRISES	18.6	–20.3	6⅜
AL TELEPHONE COMPANIES	8.4	–7.6	BELL ATLANTIC	13.3	–6.6	48
	5.6	–7.1	PITTSTON	15.4	7.5	21½
C POWER	3.3	–4.2	PACIFIC GAS & ELECTRIC	6.5	14.6	22⅝
ISTANCE TELECOMMUNICATIONS	2.6	–30.2	UNITED TELECOMMUNICATIONS	8.8	–35.5	27¾

EEK LAGGARDS	% change 4-week	52-week	Weakest stock in group	% change 4-week	52-week	Price
AND MOTELS	–26.3	–74.3	MARRIOTT	–36.1	–71.9	10⅝
AL LOANS	–25.7	–50.8	HOUSEHOLD INTERNATIONAL	–32.7	–61.6	22⅞
TIME	–25.2	–63.7	BALLY MANUFACTURING	–54.2	–86.2	3⅜
S AND LOANS	–19.9	–45.7	GREAT WESTERN FINANCIAL	–25.7	–56.5	10½
G	–18.8	–37.5	GOLDEN NUGGET	–25.5	–39.6	17⅛

UAL FUNDS

MORNINGSTAR INC

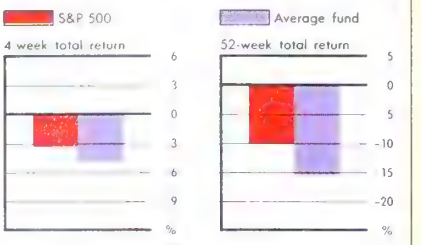
total return	%
LECOMMUNICATIONS INCOME	9.9
VANCE TOTAL RETURN	4.5
NVESTORS TELEPHONE INCOME	4.0

total return	%
STRATEGIES	50.0
Y SELECT ENERGY SERVICE	32.4
Y SELECT BIOTECHNOLOGY	22.0

LAGGARDS

Four-week total return	%
SHERMAN DEAN	–20.5
SECURITY ULTRA	–18.2
BULL & BEAR SPECIAL EQUITIES	–16.6

52-week total return	%
STEADMAN OCEANOGRAPHIC TECHNOLOGY	–53.2
PRUDENT SPECULATOR LEVERAGED	–52.6
WASHINGTON AREA GROWTH	–45.2



TIVE PORTFOLIOS

DATA RESOURCES INC

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Gold	Money market fund	Treasury bonds	Foreign stocks	U. S. stocks
$10,937	**$10,696**	**$9,894**	**$8,787**	**$8,616**
+2.36%	+0.14%	–1.46%	+5.08%	–3.21%

this page are as of market close Wednesday, Oct. 10, 1990, unless otherwise indicated. ups include S&P 500 companies only; performance and share prices are as of market close Oct. 9. Mutual fund returns are as of Oct. 5. Relative portfolios are valued as of Oct. 9. A more detailed explanation of this page is available on request.

THE BUDGET HORROR VIEWED FROM ABROAD

President Bush's decisive action at the onset of the Persian Gulf crisis briefly bolstered the image of the U. S. overseas. Viewed from abroad, the U. S. seemed to have recovered its old confidence and its power to influence world affairs. But much of this has been swept away by the halting, chaotic budget wrangling by politicians who seem less than visionary. Abroad, the U. S. is once again seen as that hobbled giant incapable of putting its house in order, subsidizing a crumbling savings and loan industry, and stumbling into new problems in the banking industry.

The final budget agreement, when it comes, may not be all that bad from the foreign viewpoint. Still, the politicians' haggling has undermined confidence in U. S. financial responsibility. The world financial markets showed their distaste by dramatically pushing up yields in the U. S. bond market and bringing down the dollar to new lows.

More than national pride is at stake in the loss of credibility overseas. Foreign leaders are resentful that a deepening U. S. recession, caused by higher interest rates, will affect all other Western economies. Foreign investors, who used to help finance the budget deficit, are now voting with their feet. They're walking away from U. S. Treasury debt, of which they were net sellers to the tune of $2.5 billion during the first half of 1990. If the U. S. must finance its deficits alone, interest rates will have to rise to very high levels to make U. S. paper attractive. Raising interest rates while the economy is in a downturn can only deepen the recession. Deficits do matter.

JAPAN HAS A NEW LESSON FOR DETROIT

The U. S. auto industry once again finds itself with its back to the wall, struggling to fend off charging Japanese rivals. This time, the issue is quality (page 84). Just as Detroit was finally catching up with Japan on getting the rattles and glitches out of its cars, Japan threatens to leapfrog again. The Japanese have come up with *miryokuteki hinshitsu*, or "things gone right," a whole new concept of quality. Its central message: New cars can't simply be defect-free anymore to gain sales. Henceforth, carmakers will have to go to ever-greater lengths to surprise and delight buyers.

If anything, Detroit's market problems are more serious now than in the early 1980s, when the U. S. auto industry was helped by "voluntary" restraints on imported Japanese cars. Japan's share of the U. S. car market has jumped three points in the past year, and the size of the market is plunging. Chrysler, whose market share has fallen 1.3 percentage points, to 12.4%, is looking for help from a European partner. General Motors and Ford also could be in trouble in a few years if the trend continues. But giving Detroit a hand with more import restraints isn't the answer. Last time, the Big Three fattened their profits with the windfall that restraints gave them. Japan got a profit windfall, too, and poured it into developing its current batch of fast-selling new cars.

Detroit must act on its own—and swiftly. The situation, though grave, isn't hopeless. With their new quality thrust, Japanese auto makers are trying to beat Detroit at its traditional strengths: styling, ergonomics, and features that appeal to the tastes of U. S. consumers. Chrysler's pioneering minivans and Ford's Taurus proved that the Big Three can win that game if they're willing to take some risks. Now, with its Saturn, GM is fighting back with Japan's own tactics: the "look and feel" of a Japanese car plus Japanese-style pricing—as little as $7,995 for a basic four-door. Detroit needs more of this kind of aggressive risk-taking.

Meanwhile, other U. S. industries should be forewarned. The auto makers are first, but many Japanese companies—from hotel chains to camcorder makers—are adopting *yokuteki hinshitsu*, too. Unless other U. S. companies move now, they'll join Detroit against that wall.

DON'T LET PAKISTAN BUILD THE BOMB

The end of the cold war has triggered the broadest move toward conventional and nuclear disarmament ever seen in Europe, where the world's biggest concentration of armed forces and weapons is located. Prospects are brightening, too, for cutbacks in strategic nuclear arms by the U. S. and the Soviet Union.

But there is a rising danger that nuclear arms will spread to other countries besides those that already possess them, including Britain, France, China, India, and Israel, although Jerusalem hasn't admitted having such weapons. Brazil had a nuclear weapons program that was only abandoned when governments changed. Most ominous, some states that are close to building the bomb, such as Pakistan and Iraq, are also locked in hostile confrontations with neighbors that could tempt them to use the weapons.

The U. S. and other nuclear powers must use their political and technological clout, including the ability to supply knowhow and fuel for peaceful nuclear uses, more forcefully to prevent further proliferation of nuclear weapons. Countries such as Germany that have nuclear technology with nuclear weapons must also crack down hard on companies that have been selling critical nuclear components and materials to countries such as Iraq and Pakistan.

For the U. S., the crucial test case right now is Pakistan, which is pushing to acquire nuclear arms to match those of India's. Washington must cut off its $4 billion aid program to Pakistan to exert pressure on Islamabad to halt its efforts to build the bomb. The sanctions against Pakistan will also warn other countries that any attempts to acquire nuclear weapons may incur costly sanctions. The stakes in halting proliferation of nuclear weapons are very high. The U. S. and other countries with strong leverage must be willing to use it to head off a rising menace.

OBER 29

CORPORATE STRATEGIES: ▶UNION CARBIDE ▶MOTORO

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THE BEST B-SCHOOLS

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NUMBER 3185

BusinessWeek

OCTOBER 29

STILL NO. 1: DON JACOBS OF NORTHWESTERN'S KELLOGG SCHOOL LOOKS FOR "CARING PEOPLE—WE DON'T HAVE LONERS WITH SHARP ELBOW"

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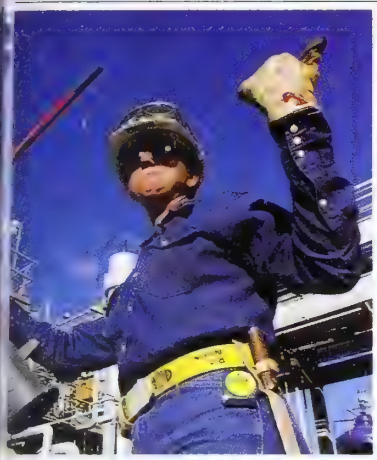
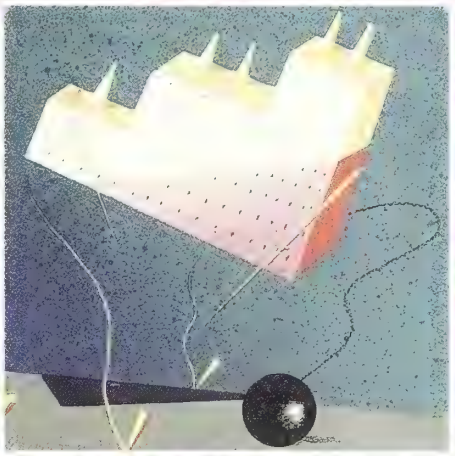


THE MORE THINGS CHANGE . . . UNION CARBIDE IS RESTRUCTURING AGAIN—SPINNING OFF BUSINESSES AND BUYING BACK STOCK. BUT THAT ISN'T SATISFYING INVESTORS



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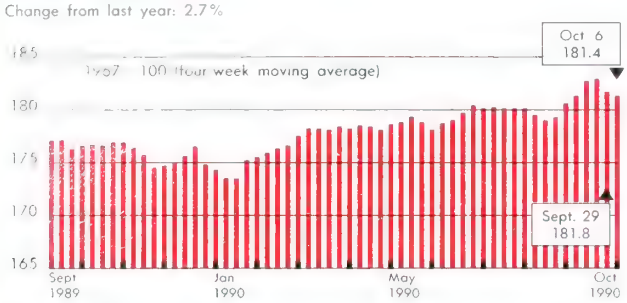
BusinessWeek Index

PRODUCTION

Change from last week: –0.2%
Change from last year: 2.7%

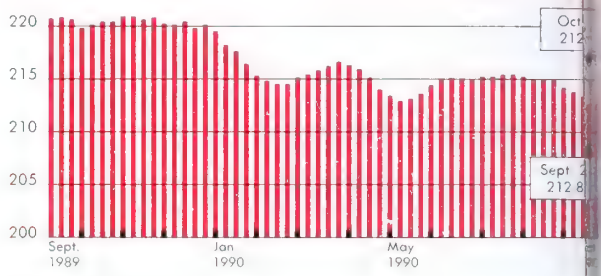


The production index slipped again in the week ended Oct. 6. On a seasonally adjusted basis, truck and auto production were up sharply, with gains also posted in coal, steel, and electric power output. Paperboard, lumber, and crude-oil refining production were down, while output of paper and rail-freight traffic was unchanged. Prior to calculation of the four-week moving average, the index increased to 180.7 from 179.3 posted the week before.

BW production index copyright 1990 by McGraw-Hill Inc

LEADING

Change from last week: 0.0%
Change from last year: –3.2%



The leading index was unchanged for the week ended Oct. 6 but remains below its level of a year ago. In the latest week, a gain in stock prices, lower bond yields, and faster growth in M2 offset the slower pace of material prices and real estate loans. Data for the number of business failures were unavailable. Before calculation of the four-week moving average, the index gained slightly, rising to from 212.2 in the previous week.

Leading index copyright 1990 by Center for International Business Cycle Research

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
STEEL (10/13) thous. of net tons	1,863	1,932 #	1.9
AUTOS (10/13) units	142,411	143,757r #	0.2
TRUCKS (10/13) units	82,626	77,602r #	33.3
ELECTRIC POWER (10/13) millions of kilowatt-hours	53,517	53,282 #	7.1
CRUDE-OIL REFINING (10/13) thous. of bbl./day	13,132	13,487 #	–2.3
COAL (10/6) thous. of net tons	20,967 #	20,878	4.4
PAPERBOARD (10/6) thous. of tons	756.2 #	780.8r	2.7
PAPER (10/6) thous. of tons	761.0 #	758.0r	1.7
LUMBER (10/6) millions of ft.	469.2 #	489.6	–12.2
RAIL FREIGHT (10/6) billions of ton-miles	21.1 #	21.3	6.6

Sources: American Iron & Steel Inst., *Ward's Automotive Reports*, Edison Electric Inst., American Petroleum Inst., Energy Dept., American Paper Inst., WWPA[1], SFPA[2], Association of American Railroads.

FOREIGN EXCHANGE

	Latest week	Week ago	Year ago
JAPANESE YEN (10/17)	125	130	142
GERMAN MARK (10/17)	1.51	1.53	1.85
BRITISH POUND (10/17)	1.97	1.97	1.59
FRENCH FRANC (10/17)	5.05	5 11	6.27
CANADIAN DOLLAR (10/17)	1.16	1.15	1.17
SWISS FRANC (10/17)	1.27	1.28	1.62
MEXICAN PESO (10/17)[3]	2,910	2,895	2,592

Sources: Major New York banks. Currencies expressed in units per U S. dollar, except for British pound expressed in dollars.

PRICES

	Latest week	Week ago	% Change year ago
GOLD (10/17) $/troy oz.	366.000	391.800	–0.7
STEEL SCRAP (10/16) # 1 heavy, $/ton	110.50	110.50	6 2
FOODSTUFFS (10/12) index, 1967 = 100	213 8	217.0	0.7
COPPER (10/13) ¢/lb.	132.9	131 7	–3.9
ALUMINUM (10/13) ¢/lb.	85.0	85 3	4 9
WHEAT (10/13) # 2 hard, $/bu.	2.81	2.86	–33.7
COTTON (10/13) strict low middling 1-1/16 in., ¢/lb.	69.25	69 18	–0.5

Sources: London Wed. final setting, Chicago mkt., Commodity Research Bureau, *Metals Week*, Kansas City mkt., Memphis mkt.

LEADING INDICATORS

	Latest week	Week ago	% Ch ye
STOCK PRICES (10/12) S&P 500	302.89	311.15	
CORPORATE BOND YIELD, Aaa (10/12)	9.59%	9.54%	
INDUSTRIAL MATERIALS PRICES (10/12)	107.7	108.0	
BUSINESS FAILURES (10/5)	NA	311	
REAL ESTATE LOANS (10/3) billions	$381.4	$381.2	
MONEY SUPPLY, M2 (10/1) billions	$3,327.6	$3,315.8r	
INITIAL CLAIMS, UNEMPLOYMENT (9/29) thous.	397	390	

Sources: Standard & Poor's, Moody's, *Journal of Commerce* (index: 1980 = 100), Bradstreet (failures of large companies), Federal Reserve Board, Labor Dept. CIBCR seasonally adjusts data on business failures and real estate loans.

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Ch ye
HOUSING STARTS (Sept.) annual rate, thous.	1,135	1,142	
INDUSTRIAL PRODUCTION (Sept.) total index	110.7	110.4r	
PRODUCER PRICE INDEX (Sept.) finished goods	120.9	119.0	
RETAIL SALES (Sept.) billions	$151.2	$149.6r	

Sources: Commerce Dept., Federal Reserve, BLS, Census Bureau

MONETARY INDICATORS

	Latest week	Week ago	% Ch ye
MONEY SUPPLY, M1 (10/1)	$829.3	$821.6r	
BANKS' BUSINESS LOANS (10/3)	318.9	316.9r	
FREE RESERVES (10/3)	641	55r	
NONFINANCIAL COMMERCIAL PAPER (10/3)	156.3	154.3	

Sources: Federal Reserve Board (in billions, except for free reserves, which are expressed a two-week period in millions).

MONEY MARKET RATES

	Latest week	Week ago	Ye a
FEDERAL FUNDS (10/16)	8.01%	8.21%	8 7
PRIME (10/17)	10.00	10.00	10.
COMMERCIAL PAPER 3-MONTH (10/16)	8.03	8.01	8.
CERTIFICATES OF DEPOSIT 3-MONTH (10/16)	7.50	8 14	8 4
EURODOLLAR 3-MONTH (10/10)	8 11	8.04	8.

Sources: Federal Reserve Board, First Boston

# Raw data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipm
1 = Western Wood Products Assn. 2 = Southern Forest Products Assn. 3 = Free market value NA = Not available r = revised NM = Not meaningful

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NEW YORK	MILAN, ITALY	1	2
NEW YORK	BRUSSELS, BELGIUM	1	2
CHICAGO	CAMBRIDGE, ENGLAND	1	2
MIAMI	TRINIDAD, BOLIVIA	1	5
NEW YORK	MANNHEIM, W. GERMANY	1	3

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Dean Witter Active Assets Account	$80	$10,000	No	No
Shearson Lehman Financial Mgmt Account	$100	$10,000	No	No

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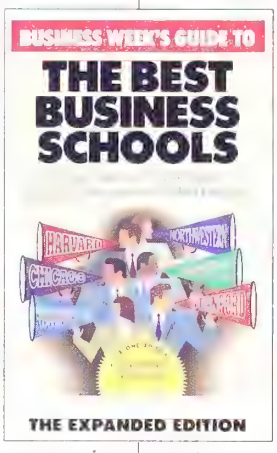
Editor's Memo

A BIGGER AND BETTER GUIDE TO THE BEST

Two years ago, Senior Writer John Byrne had a simple idea. As a longtime reporter of management issues, he had noticed that whenever academicians sought to rank the performance of business schools, they would invariably poll deans or faculty members. While these deans and professors knew quite a lot about their own schools and perhaps several others where they had worked or studied, many of their views were based on what they had heard from their peers. Why not, Byrne asked, rank the schools on the basis of how the customers viewed the schools? By customers, he meant graduates and recruiters.



His idea blossomed into a full-blown event. When Byrne's story and rankings of the Best Business Schools made the cover of BUSINESS WEEK in November, 1988, the issue sold more copies than any other regular issue of the magazine that year. We were inundated with mail; Byrne was overwhelmed with requests for information. Most gratifying, some of the schools that got poor grades went to work to improve their programs.

The response was so strong that we decided to produce a book based on our research. Published by McGraw-Hill, which owns BUSINESS WEEK, the book went through several printings and sold 40,000 copies.

What could Byrne do for an encore? This year he set out to expand our rankings of the best B-schools. He surveyed three times as many recent graduates from more schools and polled a third more corporate recruiters as well. With assistance from Matthew Goldstein, a respected statistician and president of the Research Foundation of the City University of New York, we developed a sophisticated methodology to identify the best schools.

The result of all this is the cover story on page 52. And, coming to your favorite bookstore within the next month, a second, expanded edition of the *BUSINESS WEEK Guide to the Best Business Schools* (McGraw-Hill, $14.95). Like the first edition, it goes well beyond our magazine story by providing profiles on 50 top schools. It gives prospective students advice on how to choose a school, how to go about getting accepted—and how much it will cost. If you would like to reserve a copy, you can write to McGraw-Hill Inc., P. O. Box 400, Hightstown N. J. 08520, or call 800 262-4729.

Byrne received lots of help. Staff Editor Monica Roman reported on a number of B-schools and wrote a commentary on the gap between the salaries of male MBAs and those of female MBAs (page 57). Staffers Celeste Whittaker, Judi Crowe, and David Leonhardt assembled the data.

As for Byrne, he wasn't content to put together a bigger, better version of his first B-school rankings. For this year's package, he wanted to determine which institutions are strongest in academic research relevant to professional managers. Once again, Byrne's simple idea turned into a provocative story (page 62). The results are interesting—and so is Byrne's view of how B-schools could make their research more germane to the job of running a business.

Stephen B. Shepard

Editor-in-Chief

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HOW THE JAPANESE MAKE MONEY THE OLD-FASHIONED WAY

Professor Blinder's article "There are capitalists, then there are the Japanese" (Economic Viewpoint, Oct. 8) must have Adam Smith rolling over in his grave. The Japanese have succeeded by doing everything right (according to standard economic theory) and have added their own twist.

Japanese megacorporations (Sony, Toyota, et al.) do serve the wants of consumers. World consumers have far better value available in a wealth of product categories today than would have been possible absent the Japanese application of classic economic theory.

Major U. S. manufacturers, on the other hand, have failed to serve either the wants of consumers (the auto industry, most notably) or their shareholders (the fiscal weakness produced by the leveraged buyout scandals), giving ample entrée to our rich markets to the Japanese and others.

Adam Smith would have applauded the locking up of price, quality, and availability through *keiretsu*, the long-term costs being far lower. We have legislated defeat in this area in the name of protecting the little guy.

Jeff Randall
Warwick, R. I.

HOW ABOUT A HELPING HAND FOR U.S. TEXTILE MAKERS?

You haven't done your homework ("Terminate the textile bill," Editorials, Sept. 24). The textile business was already on shaky ground when the U. S. entered World War II.

After the war, when our plants were worn out and the unions were beating us down with government encouragement, foreign competitors—friends and enemies alike—were allowed to buy U. S. cotton at far cheaper rates than were our mills. The government financed and granted them foreign aid to rebuild plants and equipment, then let them sell goods in this country at tariff rates that were not reciprocated to us overseas. Most of these countries still do not permit us that equality. In the meantime, we were paying much higher labor rates, plus a good many more fringe benefits, but getting no breaks on our replacement-depreciation schedules to replace worn-out machinery.

Isn't it time the government l[ook] after the industries that provide t[he] come that the government so desp[er]ly needs?

John Cock[e]
Clover, [S.]

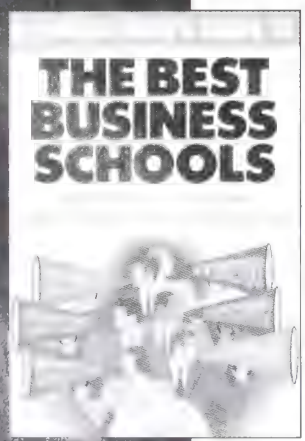
BEWARE OF EMPLOYERS WIELDING DATA BASES

Data bases to track injured wo[rkers] create individual rap sheets [to] prevent future employment ("Lo[sing] for a job? You may be out before y[ou] in," Information Processing, Sept[.] The employer argument for tryi[ng] hold down fraudulent workers' co[m]sation claims is bogus. Instead of i[n]ing in a safer workplace, employer[s] their resources in a technology tha[t] criminates against the victims of u[n]job sites.

David Cz[ar]
Executive Di[rec]
Louisiana Consumers Le[ague]
Baton Rouge

The practice of credit-checking [job] applicants is not an accep[table] screening procedure unless the [job] check has a bearing on the parti[cular]

You can judge a book by its cover stor[y]



Now that you've read this week's *BW* cover story, you'll want to get the *whole* st[ory] with *Business Week's Guide to the Best Business Schools*, Second Edition.

This frank, savvy handbook not only gives you the inside track on the nation's to[p] 20 B-schools—it takes the same candid look at the 20 best runners up *plus* a nu[m]ber of respected regionals.

There's also expanded coverage of part-time and executive MBA programs an[d] an entirely new chapter, "Diary of an MBA," that brings you as close as you ca[n] to experiencing a B-school *without* enrolling.

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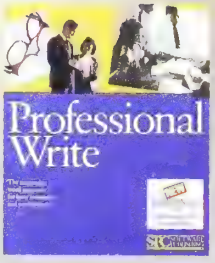

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These Days When A Worker Has An Accident, Ev

The Workers Compensation System was designed to help injured workers get well, and return to work. In most states, it does. In other states, the problems aren't simply big. They're enormous.

And beginning to spread into other states. Right down the line, everybody's starting to feel the effects—from the workers, to their families, to the employers, to the insurers.

The System

Over 75 years ago, when it was created to protect workers from on-the-job injuries, Workers Compensation was based on some well-intentioned and well-received ideas:

To prevent work-related accidents from ever happening.

To give prompt, quality medical attention and equally prompt income benefits.

To rehabilitate injured workers and hel them get back to work.

To offer cost stability to the employer.

And ultimately, to keep the entire wor productive—the less down-time, the more you have to be competitive, and stay compe

The Obstacles

It bears repeating: There are problems problems, in many states, that need fixing. also need to strengthen the system so that t problems don't spread to other states.

Problems like unnecessary, time-consu litigation. Soaring claims costs. Underfunde understaffed state-administered agencies. A on a national level, runaway medical costs.

Fact is, the economies of entire states a

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y Gets Hurt.

—partly because businesses won't relo-
places where Workers Compensation is
ray.
r some states, the situation is so critical,
s have stopped writing Workers Compen-
nsurance altogether—premiums won't
ver losses and expenses.

The Way To Help

hat can *you* possibly do to help? You'd be
ed. To help restore and strengthen the
in your state, you can take two courses of

st: Be aware. Find out what's happening
state, how you're affected, and what you
to help. Talk to your insurance company
ness trade association.
two: Share your views by writing to Gary Countryman, President and CEO of Liberty Mutual, 175 Berkeley Street, Boston, MA 02117. We'll help you get in touch with people in your state who can help.

When strong and fit, the Workers Compensation System works hard, and works well. Everyone it touches, it benefits—especially the injured worker.

Which is why, considering all it stands for, we should do everything possible to keep it standing.

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And operated alongside h A320, these aircraft provide a unbeatable combination.

AIRBUS INDUSTRIE

For example, a credit check is ac-
able if the applicant seeks to become
nk teller. It is not acceptable in the
of, say, a person seeking a writer's
or a welding job.
ie use of credit checks is discrimina-
against women—who have only re-
ly begun to assert their own credit
ts and who even today often still
credit only in their husbands'
es—and against certain minority
ps long victimized by so-called easy
it scams, bank redlining, and out-
prejudice.

Terry W. Smith
San Antonio

NASD MAY NOT BE KALL INVESTOR'S BEST FRIEND

s an investor in the equity markets
for over 30 years, it has been my
rience that there is a lot more
ıg with the National Association of
rities Dealers system than the pub-
nderstands ("The NASD: A computer-
mouse that's roaring," Finance,
17).
ou need to cut through the myth
the system is set up to benefit and
ide a level playing field for the pub-
lic. The NASD is a private club set up: (1) to make money for its members, (2) to serve institutional traders, and (3) to keep dealers' spreads as wide as possible to cut their losses and increase their profits.

I think it's important for all small investors to realize that the playing field is far from level—it is grossly slanted.

Alan Baxter
Ponte Vedra, Fla.

AIDS RESEARCH DESERVES ITS FAIR SHARE—AND NO MORE

I wholeheartedly disagree with your commentary "No, spending more on AIDS isn't unfair" (Science & Technology, Sept. 17). I have lost four personal friends under the age of 35 to cancer and two relatives to heart disease, and I am tired of a select group of people (AIDS activists) protesting and demonstrating that their disease is more important than any other.

While AIDS is a fatal disease, it is now largely preventable through the use of safe sex and clean needles. Most major cities now have needle- and condom-distribution centers set up.

I believe that the U. S. government should fund AIDS research, but it should be done proportionally to other diseases with the same mortality rate.

Daniel J. Mahoney
Concord, Calif.

RONALD REAGAN, LOBBYIST FOR JAPAN INC.?

Your report "Look who's lobbying for Japan Inc." (Books, Oct. 8) on Pat Choate's book *Agents of Influence: How Japan's Lobbyists in the United States Manipulate America's Political and Economic System* leaves out one important player, namely, former President Ronald Reagan.

Having sold out our economy to Japan for generations to come in the name of supply-side economics, the ex-President promptly went to Japan to collect his $2 million fee. And he was not even registered as a lobbyist.

Paul R. Steyermark
Wilmington, Del.

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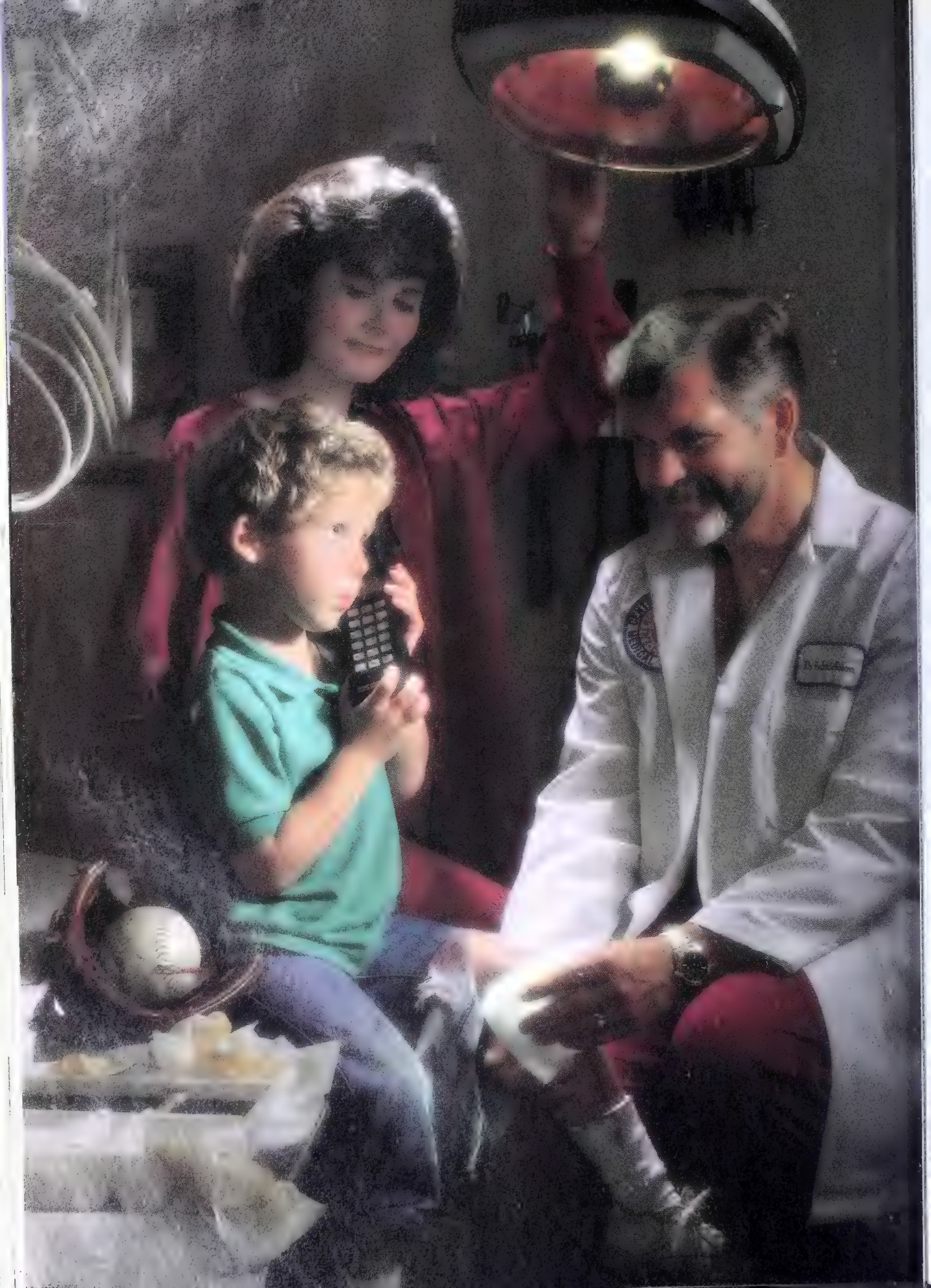


HOW FUJITSU HELPS A BIG HOSPITAL STAY SMALL.

Saint Cloud Hospital in central Minnesota is a regional medical center serving a population of more than 425,000 in a ten-county area covering more than 7,500 square miles. It's a highly progressive, rapidly expanding institution with hundreds of doctors, comprehensive services, and an attitude of intense human concern. Patients are never numbers, they're people. And they are treated like people. For all its size, Saint Cloud Hospital still feels 'small'.

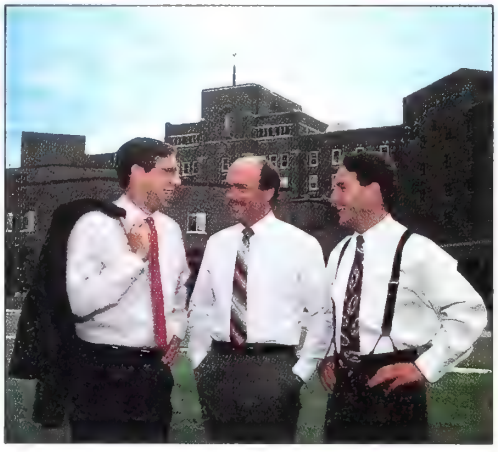
CARING INTIMACY

The hospital has worked very hard to ensure an environment of caring intimacy, developing many special programs and procedures and investing heavily in technologies that free its people to focus on people.

One current investment is in hundreds of portable and mobile cellular telephones to give the hospital instant two-way communications with its on-call staff. The phones have put doctors and nurses in touch as never before, and have begun to find a wide range of unexpected uses for themselves —like letting emergency room patients reassure loved ones directly from a moving hospital gurney.

SELECTED FUJITSU

Saint Cloud Hospital, working with its service provider, United States Cellular, studied a variety of cellular telephone brands before it finally settled on Fujitsu. It chose Fujitsu not only for the quality of its telephones but for the quality of the company behind them. Fujitsu is one of the world's largest computer and communications companies—a high-tech powerhouse that's a major force in the global information revolution. With 115,000 employees, projects completed in a hundred countries, and manufacturing facilities across the U.S.A., it's a company that's many things to many different people. To the people at Saint Cloud Hospital, it's a giant that's helping them stay small.



Gary Gibson of Fujitsu talks with Bill Becker of Saint Cloud Hospital and Joe Salaski of United States Cellular Mobile Telephone Network. United States Cellular, a nationwide carrier which operates the cellular network in St. Cloud, Minnesota, strongly recommends Fujitsu phones. For information call Fujitsu at (214) 690-6000.

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A JUICY TALE OF VINE AND VINTNERS

Winemakers call it a "thief." A long glass tube with a handle at one end, the device is inserted into a barrel of aging wine to capture enough liquid to reveal the wine's developing hues and provide a taste of the work in progress.

Like a wine thief dipping in and out of vintage barrels, James Conaway gives readers of his luscious chronicle, *Napa: The Story of an American Eden*, a full-bodied and downright juicy sample of the families and businesses that have built America's premier wine region—and that could, some fear, be on the verge of destroying it.

Napa is not for those looking to impress their favorite sommelier. Conaway wastes nary a flowery adjective judging wines' merits. In fact, the former *Washington Post* wine columnist pokes fun at writers who describe wines with such treacly verbiage as "Episcopalian in its predictability." *Napa*, rather, is the saga of the people who have become smitten with this idyllic valley north of San Francisco, beginning with the European immigrants who first planted vines there in the late 1800s.

Typical of recent arrivals are Jack Davies, a former Los Angeles executive, and his wife, Jamie, who came in the mid-1960s "to change their way of life" and built the acclaimed Schramsberg Vineyards. Conaway also writes of the dashing but ultimately tragic John Daniel, who, though he longed to become a professional pilot, embraced his family's winemaking legacy at Inglenook in 1937. Daniel's wife Betty grew to despise the business, and Conaway's account of her vitriol against her husband—including the suggestion that she drove him to suicide—rivals any soap opera. In fact, people in the valley are stirred up about *Napa*, which mixes love affairs and family feuds with corporate buyouts—a sort of *Falcon Crest* meets *Barbarians at the Gate*. But the tales aren't gratuitous; the personal struggles are integral to the region's story.

Still, some of this wine thief's most piquant samples are of the "idiocies" of companies that sought new fortunes in wine during the 1960s and 1970s. Time and again, corporations such as Seagram, Coca-Cola, and Pillsbury underestimated the complexity and expertise that underlie wine-making and marketing. Most have since left the business confounded by its dependence on weather and grape quality, the difficulty of building brand loyalty, and the elusiveness of economies of scale.

In 1969, for example, Hartford-based conglomerate Heublein, having recently snagged Kentucky Fried Chicken and Hamm beer, wanted a premium wine property. It chose Beaulieu Vineyard, famed for its rich cabernet sauvignon. Dagmar de Pins Sullivan, the shortsighted daughter of Georges de Latour, who founded Beaulieu in 1899, was persua-

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the winery's general
ager, Legh Knowles, had
ested permission to buy
8,000-gallon fermenting
s. "Legh, you're in the
time now. Just ask for
80,000-gallon tank," the
utive smugly told the sea-
d Knowles. "We like to
ent our red and white
rately," came Knowles's
onic reply.
iat's the sort of story Cal-
nia winemakers share
unabashed glee.
way's access to the val-
insiders and their delight
ne troubles of outsiders
Napa an added zest. The
t's main flaw is that,
gh rich in anecdotes and
ils, it is vague about dates and con-
As Conaway picks up and leaves
family histories, the reader often be-
es confused about when the action is
ng place.
most half of *Napa* is devoted to the
e over the valley's future, which has driven deep chasms among residents. Vintners, championed by Robert Mondavi, Beringer's Michael Moone, and a few other aggressive marketers, have steadily promoted Napa not just as a wine-making region but also as a tourist attraction. An odd alliance of grape growers, environmentalists, and residents, who fear the region's pastoral beauty will be ruined, struggle to keep development in check. The valley enjoys some protection from a county plan approved in the 1960s that limits the types of commercial pursuits in the "agricultural preserve."

Nonetheless, many wineries have added restaurants, gift shops, and other businesses that violate the spirit, if not the letter, of the plan. Recently, a San Francisco area pasta mogul began running a train tour of the valley—but because of local resistance, the train isn't allowed to stop.

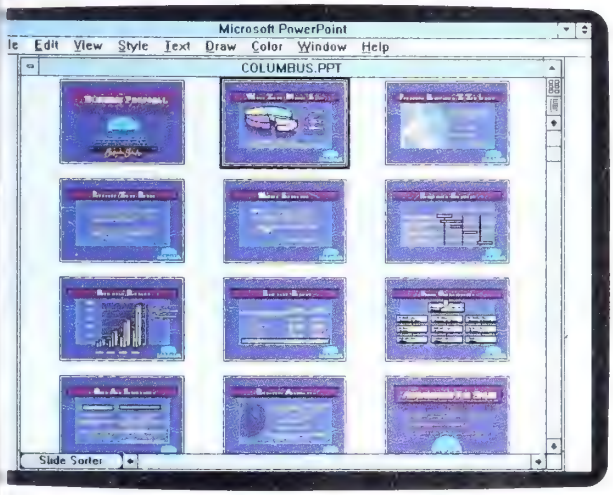
Conaway's painstaking account of the battle over growth can be tedious. It's certainly less fun to read than his tales of the colorful characters whose sweat and tears built Napa's renown. But this taste of trouble in paradise hardly diminishes the pleasures of this robust history of a particularly interesting industry.

BY JOAN O'C. HAMILTON

San Francisco Bureau Manager Hamilton covers the California wine industry.

CHATEAU CHEVALIER: DEEP CHASMS OVER THE REGION'S FUTURE

ons into your own hands.



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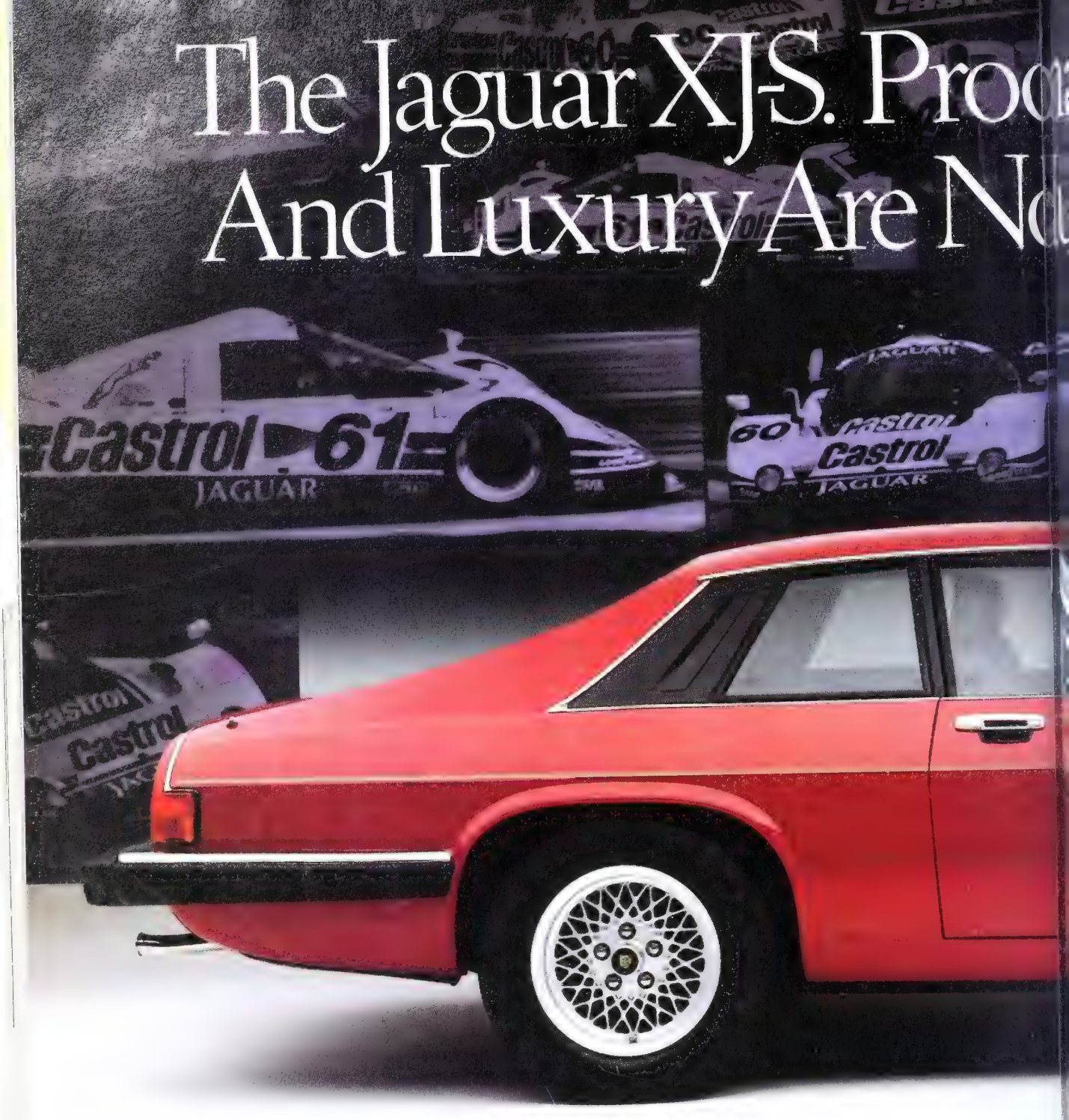
The Jaguar XJ-S. Proo
And Luxury Are No



If the rewards of driving a high performance car seem inextricably linked to a spartan interior, we'd like to offer a few words of comfort: The Jaguar XJ-S.

Inside the cabin, an environment of refined luxury and elegance surrounds you. Highly polished burl elm graces the fascia, console and door waist rails. The seats are adorned with hand-tailored leather, accented by color-coordinated piping. Power-adjustable lur supports ensure comfort for even the lengthiest to Jaguar's 80-watt stereo system delivers near concert quality sound as it plays through four acoustic matched speakers.

Under the elegantly sloped hood lies Jaguar's c head cam V-12 engine—as impressive for its smo

A BLENDING OF ART AN

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and refinement as for the 263 horsepower it rates. Modified for racing, it powered Jaguar to two victories in the world-famous 24-hour endurance races at Daytona and Le Mans this year.

aguar's four-wheel, fully independent suspension m provides a smooth, surefooted ride. And for ident stopping, even on slick surfaces, the XJ-S coupe is equipped with four-wheel disc brakes and a Teves advanced anti-lock (ABS) braking system.

In an era when exhilarating performance seems to preclude a tradition of luxury, the XJ-S coupe provides a most welcome exception.

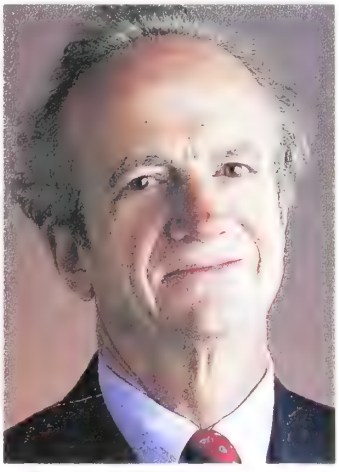
We invite you to test drive the Jaguar XJ-S. For your nearest dealer, call 1-800-4-JAGUAR.

A C H I N E

J A G U A R

UNCLE SAM SHOULD KEEP HIS MITTS OFF OIL PRICES

BY GARY S. BECKER



Even $40-a-barrel oil will not have a devastating economic effect —unless it generates silly policies such as those introduced during the 1970s' energy crunch

With oil selling at close to $40 a barrel, the U. S. and other industrialized countries are under enormous pressure to do something, anything, to stabilize prices. But what goverments are being asked to do will hurt rather than help their economies. Here are a few dos and don'ts for a sound oil policy.

The most important step is to avoid interfering with the market for oil and other sources of energy so that supply and demand can determine prices. If oil continues to be expensive because of anticipated cutbacks in supply, businesses and households worried about their budgets will discover many ways to reduce energy use, including smaller cars, greater reliance on nuclear energy, and more insulation in homes. After all, the threefold jump in the world price of oil from the early 1970s to 1980 caused the amount of oil used per real dollar of gross national product to fall in all industrialized countries.

Japan's oil consumption changed hardly at all since 1970, while its industrial output grew enormously. Even though Japan imports all of its oil, it adjusted much faster than the U. S. to the first crunch partly because Tokyo permitted domestic oil prices to rise to world levels, whereas Washington cushioned the impact with controls and rationing.

PAINFUL MEMORIES. Governments should resist the strong temptation to ration and allocate oil and natural gas. Rationing was the most blatant of many misguided U. S. reactions to the price rise of the '70s. Voters' painful memories of long gasoline lines should help Washington avoid repeating that mistake.

It is also unwise to control specific uses of oil, such as setting tougher fuel-economy standards for cars. Indeed, I still believe that Congress should abolish the corporate average fuel economy (CAFE) standards altogether. These require that the new fleet of each manufacturer average at least 27.5 miles per gallon. When gasoline prices are high, car owners choose between the economy of more fuel-efficient cars and the safer, smoother, roomier rides of larger, heavier cars that guzzle more fuel.

A federal tax on gasoline is another attempt to control a specific use of oil. Thus, though it may be a good way to help reduce the budget deficit, it is a bad way to cut down the demand for oil because it artificially reduces one type of oil use rather than all uses. This distorts the allocation of oil among gasoline and other petroleum products.

A general tax on oil imports encourages a shift to domestic oil. This is undesirable because it would encourage U. S. oil reserves to be used up faster, and in the long run, would increase rather th reduce U. S. dependence on imported What makes more sense is a selecte tax on oil imported from the Mid East. Such a tax would shift some port demand toward Venezuela, Mex Indonesia, and other, safer sources. T tax would also have the advantage raising funds from Middle East states to help defray the cost of th defense in the current gulf crisis and other times.

BUSH'S MISTAKE. Governments sho avoid using "moral suasion" to jawb oil companies into holding the prices gasoline and other petroleum-using pr ucts below market-clearing levels. Ar cially low prices create shortages: T stimulate excessive demand for th products while taking away any inc tive refiners would have to increase s plies and search for new oil fields.

The U. S. surely does not need anot "excess" profits tax on oil compan Such a tax discourages investments ward discovering new reserves and ting more output from producing w High profits when supplies are sca and prices are high help offset oil c panies' low profits when oil supplies plentiful and prices are low.

President Bush made a mistake yielding to pressure to sell oil from Strategic Petroleum Reserve, e though he is only selling a sm amount. The U. S. and other gov ments have no more business trying stabilize the price of oil than they h trying to stabilize copper, platinum, p tics, or other commodity prices that t tuate widely. Profit-seeking private c panies are much better positioned t federal bureaucrats to determine much oil inventory to hold in ligh expectations about price fluctuati But rational private-inventory poli require clear signals about what a ernment will do with its oil reser Government strategic-oil reserves sh be used only for military purposes ing a war, boycott, or other period severe oil shortage.

The newly emerging market ec mies of Eastern Europe may be in f difficult period since world oil pr have risen just as the Soviet U stopped selling them oil at subsid prices. But even at $40 a barrel, oil not have a devastating economic ef on most other countries unless it ge ates silly policies such as those in duced during the '70s' crunch. If gov ments can resist the formidable poli pressures to intervene in the mar for oil and other energy sources, possible to ride out the present cr with only modest damage to the w economy.

GARY S. BECKER IS UNIVERSITY PROFESSOR OF ECONOMICS AND SOCIOLOGY AT THE UNIVERSITY OF CHICAGO

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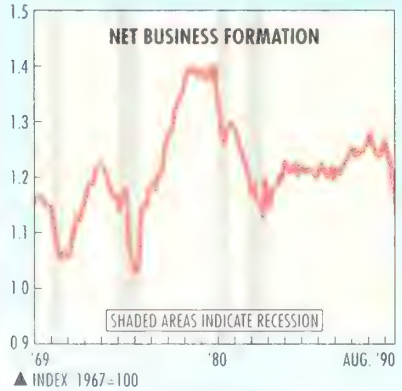
BY GENE KORETZ

THE BANK CREDIT CRUNCH STYMIES THE SMALL STARTUP

You can add a sharp slowdown in the establishment of new business enterprises to the barrage of doleful statistics pointing to a weakening economy. The Commerce Dept.'s index of net business formation, which measures the pace of business creation by subtracting business demises from startups, fell to 1.19 in August—7% below its 1989 peak (chart).

The slide in the index of net business formation is particularly noteworthy, says economist Maury N. Harris of PaineWebber Inc., because "significant declines in business formation almost always indicate the onset of a recession." In fact, net business formation was a key component of the composite index of leading indicators until 1987, when it was dropped partly because it was not available on a timely enough basis.

A RECESSIONARY DROP IN NEW BUSINESSES?



DATA: COMMERCE DEPT

As Harris sees it, new business formation is feeling the heat of the bank credit crunch. For months, he notes, commercial banks have been telling the Federal Reserve Board that they have been casting a wary eye on the credit applications of small businesses. Fifty-four percent of those surveyed in May reported a tightening of small-business lending standards, and 34% indicated further tightening by August. "Small businesses rely heavily on banks for their credit needs," he says, "and new small businesses are particularly vulnerable."

Economist David L. Birch of Cognetics Inc. in Cambridge, Mass., however, thinks that small-business woes go beyond credit stringency. His company tracks sales and employment growth of some 9 million small U.S. companies, and its latest tabulations reveal a sharp drop-off in such growth in the first half of 1990. "Small firms used to be counter-recessional, sailing ahead and keeping the economy afloat when large companies were foundering," he says. "Now, though, they seem to be suffering along with the big guys."

Because small businesses are a pivotal source of job growth, accounting for as much as two-thirds of job creation, Harris and Birch agree that the small-business sector's problems will exacerbate any cyclical downturn. But Birch believes the current slowdown is more than a cyclical phenomenon. He stresses that the U.S. is now undergoing an abrupt massive shift in labor supply, with labor-force growth suddenly slowing to less than half of its pace since 1983. "Because of this demographic shift," he says, "the 1990s will witness a sharp protracted drop in demand growth, which is already starting to impact on all businesses, large and small."

SOME FOREIGNERS ARE STILL CATERING TO U.S. CREDIT NEEDS

Fears that interest rates will remain high because overseas investors are abandoning U.S. credit markets are probably overblown, contends economist Mitchell J. Held of Smith Barney, Harris Upham & Co. For one thing, Held notes that Japanese investors have shifted gears since the first quarter, when they were net sellers of foreign-currency-denominated, fixed-income securities at a $3.2 billion annual rate. According to Japan's Finance Ministry, they became net buyers at a $37 billion annual clip in the second quarter and a $74 billion annual rate in the first two months of the third quarter.

"Typically, over 85% of such purchases are U.S.-dollar-denominated," observes Held, who concludes that while the Japanese have apparently been investing in corporate and mortgage-backed securities rather than Treasuries, their behavior "hardly indicates that they are abandoning the U.S. market, as some observers have suggested."

Held also notes that the Federal Reserve has attributed most of the $8.6 billion increase in currency in circulation in the past three months to the demand for dollars overseas—particularly in Eastern Europe and Latin America, where greenbacks are increasingly being used as a medium of exchange. "To the extent that this is happening," he says, "it is helping to finance our current account deficit at a zero-interest cost, and it will help keep pressure off U.S. interest rates as long as it continues."

RECESSION MAY HIT HARDER IN RURAL AMERICA

If the last recession is any guide, rural workers are likely to be hit harder than their urban counterparts as the current downturn unfolds. That's the implication of a new Economic Policy Institute study by University of Massachusetts economist Michael Podgursky.

The study found that 26% of 6.3 million workers who lost full-time jobs from 1981 to 1984 lived in rural areas, although rural workers represented 21% of those counted as unemployed. Further, workers displaced in rural areas tended to remain unemployed 33% to 50% longer than displaced urban workers and suffered a far larger drop in pay when they finally found work.

Why did rural workers fare so poorly in the last recession and subsequent recovery? Podgursky notes that manufacturing industries in rural areas have tended to involve low-skilled production jobs—exactly the type of industries that have suffered employment declines in the 1980s. And while rural displaced workers tend to be white males and include relatively fewer women and minorities than urban workers, they also tend to have less formal education. "As rural economies have lessened their reliance on agriculture and resource-based industries," says Podgursky, "rural workers have become increasingly vulnerable to shifts in trade and technology."

CORPORATE INSIDERS SNIFF A STOCK MARKET RECOVERY

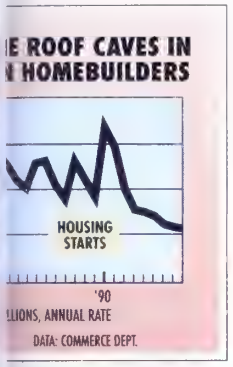
A stock-market recovery ahead? It seems to be the view of corporate insiders, who are currently in "a buying frenzy," according to *Vickers Weekly Insider Report*, which tracks insiders' trades. *Vickers*' sell-buy ratio of insider transactions over the past eight weeks has averaged 0.58%, which means that buy orders are outpacing sell orders by nearly 2 to 1. *Vickers* editor, Julian Pebble, notes that insiders have an uncanny ability to anticipate market upturns and "they haven't been this bullish since early 1988, when the Dow had barely moved back over 2,000 after its 1987 plunge.

OBER 29, 1990

BY JAMES C. COOPER AND KATHLEEN MADIGAN

OOKING FOR GOOD NEWS? AYBE NEXT YEAR

s there anything good about the outlook? For the next few months, the answer is no. The U. S. economy is facing recession and an oil-fueled surge in ation. For 1991, however, the pain should yield some . A year from now, both inflation and interest rates likely to be considerably lower.



Getting there will be the trick. September's numbers look just as bad as August's. Costlier oil is hitting the price indexes with full force just as the jobless rate is starting to swell. Industrial production is still rising, but because consumers aren't spending, much of that output is winding up in inventories. And the housing slide still hasn't found bottom (chart).

ven amid this undeniable weakness, the Federal Re- e Board is forced to sit and watch. It's hostage not to the Mideast crisis but also to Washington's bud- crisis. A hostile bond market has already prevented Fed from cutting interest rates. With all the worries ut oil inflation, an easing of policy might push long- n rates even higher.

ow, the Fed cannot loosen credit until Washington es up with a budget—whenever that is. With oil es likely to move even higher if the gulf standoff is to war, the only easing move that the bond market accept as noninflationary is one in the wake of a get package. And the longer the Fed waits, the se the economy's problems will get.

MPANIES N'T FORD TO RROW

For one thing, the economy's financial fabric is wearing thin. The recent borrowing surge in the short-term commercial paper market is one sign. The weak econ- is squeezing cash flow at many highly leveraged panies that cannot restructure their debt over a long- eriod because long-term interest rates are too high. n addition, banks are having difficulty raising capital. k stocks are plunging, and bank borrowing has be- e costlier as investors demand higher risk premiums. l now, insurance companies are starting to share the e problem that precipitated the banks' troubles: real te investments gone sour.

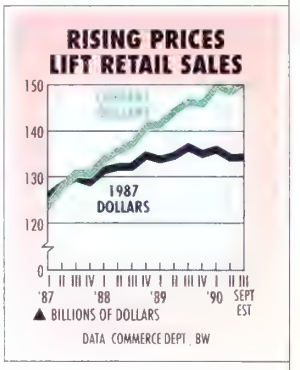
early all sectors of the construction industry have kened considerably this year, and residential builders feeling it as badly as anyone. Housing starts fell % in September to an annual rate of 1.13 million, the lowest since the 1981-82 recession. Starts have dropped for eight consecutive months—the first time that has happened in the 31-year history of the data. A glut of unsold homes remains a chief problem. And banks are becoming increasingly stingy to developers and buyers.

The oil shock and the budget mess are indirectly responsible for much of housing's recent weakness. Both have contributed to higher long-term interest rates that have kept fixed rates on mortgages hovering around 10%. The accompanying plunge in consumer confidence, to a 7½-year low in September, has hammered housing demand further.

PLENTY OF PARKING AT THE MALL

Retailers are also feeling the blow. Many analysts report that consumer traffic in the shopping malls in early October was exceptionally thin. The latest sales numbers seem to confirm that. Although retail sales in September jumped 1.1%, to $151.2 billion, higher prices and a temporary gain in car sales accounted for all of that.

The jump in gasoline prices lifted sales at gas stations by 4.9%, after a 7% surge in August. And attractive incentives from dealers lifted car buying. Car sales rose from an annual rate of 6.9 million in August to 7.6 million in September—the strongest pace in a year. Car buying fell back sharply in early October, however, to 6.5 million, after most of the incentive programs expired.



Elsewhere, retail buying last month looked pretty soft. Sales at general merchandise stores, including most department stores, dropped 0.9%. Apparel stores posted a steep 1.5% decline. Purchases at home-supply stores fell 0.5%, after a 1.2% plunge in August. And although sales at furniture stores rose 0.7%, that didn't make up for a sharp 1.8% drop in August.

Retailers' problems have been getting progressively worse for some time. In the third quarter, retail sales stood only 2.8% ahead of their level in the third quarter of 1989. But adjusted for prices, real retail sales are down 1.5% from last year (chart). That is the poorest annual performance since the 1981-82 recession.

Sales seem likely to deteriorate further in coming months as lost jobs and higher energy bills hit incomes. Consumers have already begun to spend more for gasoline, and heating homes this winter will drain earnings even more. Consumers spend nearly 40% more on energy

for their homes than they do on energy for their autos.

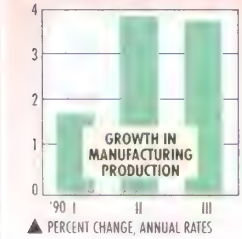
The retrenchment by consumers is leaving a lot of unsold goods lying around. Inventories at manufacturers, wholesalers, and retailers rose 0.5% in August, after a 0.7% jump in July. That's the largest two-month increase in more than a year, and it's clearly unintended. Retail inventories jumped sharply in August, accounting for three-fourths of the month's increase.

INVENTORY GROWTH WILL BOOST GNP

The recent spurt in inventories isn't hard to figure. Even amid weakening demand, manufacturers increased their output in the third quarter at about the same pace as they did in the second quarter (chart). Factory production rose at an annual rate of 3.7% last quarter, following a 3.8% clip in the second.

The Fed said output in both July and August was higher than it had originally reported. And September output exceeded expectations. Industrial production at factories, mines, and utilities rose 0.2% last month. Manufacturing output also rose 0.2%. However, a surge in car output, which lifted production of consumer goods and business equipment, accounted for all of the month's increase. Excluding autos, factory output fell slightly.

OUTPUT RISES, BUT WHERE WILL IT GO?



For the third quarter, the rise in output will boost growth in gross national product. But with car sales now falling off and consumer spending weakening generally, many of those goods are ending up in inventories. That makes fourth-quarter production cuts a good bet. And any third-quarter gain in economic growth is likely to be reversed by yearend.

That adds up to growing slack in industrial capacity. Operating rates were unchanged in September at 83.6% for all industry and 82.8% for manufacturing. Both are already below their year-ago levels, and the prospect that capacity will loosen up further helps brighten the outlook for inflation.

ENERGY SKEWS THE INFLATION OUTLOOK

Some good news on inflation is already showing up in the declining trend of non-energy producer prices. Progress on weakening in the demand for goods will keep that measure of inflation on a downward course.

Of course, thanks to the oil shock, the overall price index for finished goods was a disaster last month. It soared 1.6% in September, on top of 1.3% in August. Energy prices rose 13.8% in September, the largest one-month increase on record.

During the past year, finished-goods prices have risen 6%, up sharply from their 3.4% pace in the 12 months ended in July. Wholesale inflation appears headed for about 6.5% this year. While some pass-through of higher in energy prices to other areas is likely, it probably won't amount to much. Indeed, commodity prices have fallen pervasively in recent weeks (page 86).

Clearly, the inflation outlook hangs on what happens in the Middle East. In the event of a war, crude prices per barrel will undoubtedly surge temporarily well above their current $38-to-$40 range. But once the standoff is settled, by whatever means, most oil analysts place the postcrisis price of oil at about $20.

Throughout the postwar period, inflation and interest rates have always fallen in the wake of a recession. Next year, the economy's weakness will moderate nonenergy price pressures at both producer and consumer levels. And when the gulf crisis is over, overall inflation and interest rates will be free to fall.

In that environment, the Fed will be able to ease credit aggressively. That will shore up the finances of consumers and businesses and help lay the groundwork for the economy's recovery.

THE WEEK AHEAD

FEDERAL BUDGET

Monday, Oct. 22, 2 p.m.

The Treasury Dept. will likely post a budget surplus of $12 billion for September, the last month of fiscal 1990, according to the consensus of economists surveyed by MMS International, a division of McGraw-Hill Inc. Last month's budget probably would have been in the red except that the federal government paid out September Social Security and other entitlements in August, because Sept. 1 fell on a Saturday. Even so, Washington is likely to post a deficit of $235 billion for fiscal 1990. That surpasses the previous peak of $221 billion in 1986 and is almost twice the budget gap of $123.8 billion that the Bush Administration expected when it released its report on the economy's future in February. In 1990, government outlays soared by nearly 13%, while tax receipts increased about 4%.

DURABLE GOODS ORDERS

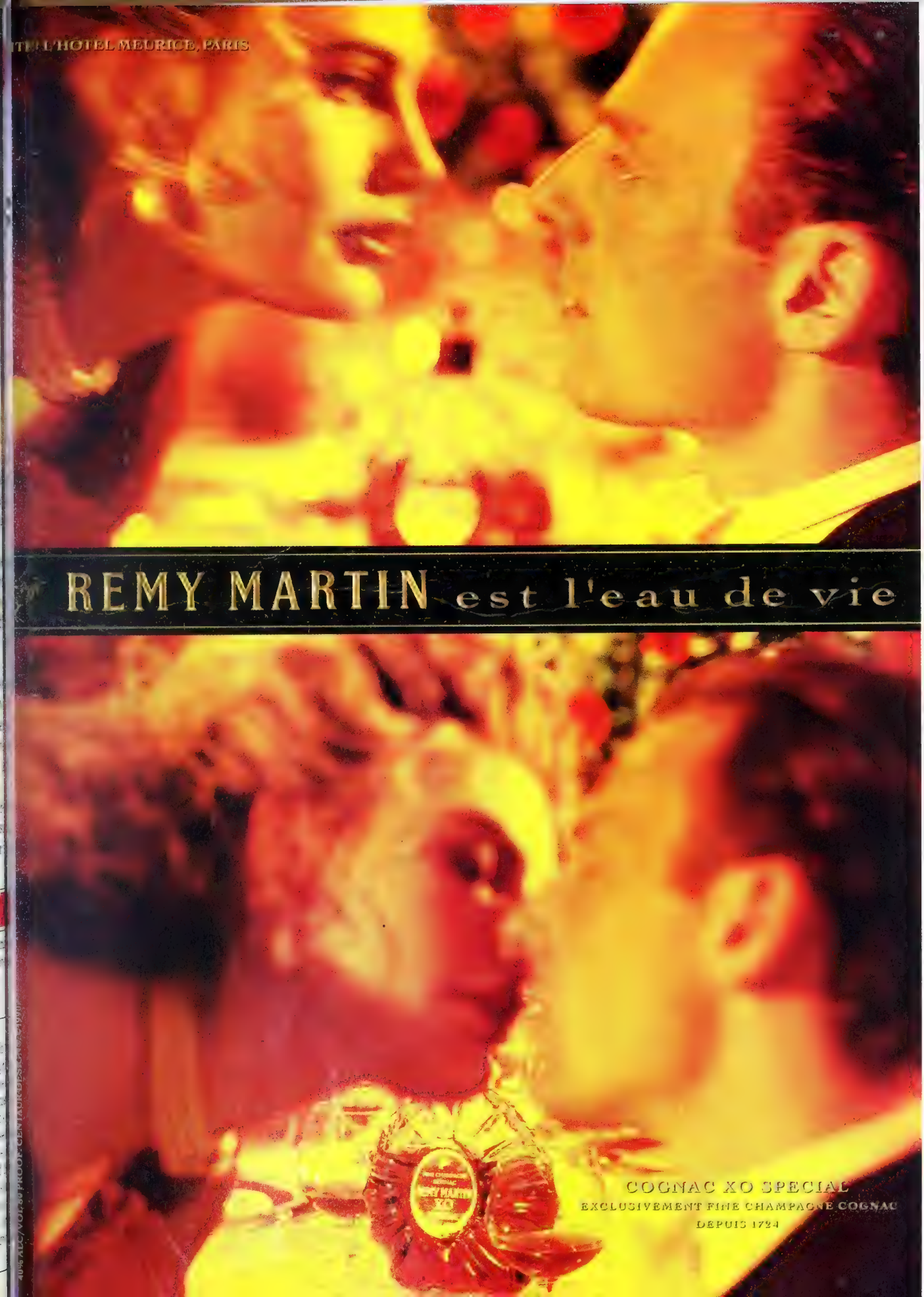
Wednesday, Oct. 24, 8:30 a.m.

The MMS consensus expects that new orders for durable goods fell by about 0.3% in September, after declining 0.5% in August. As in August, weakness in ordering by private domestic sources in September will offset a gain in military demand because of the gulf crisis. As a result of the drop in new orders, unfilled orders in September probably also slipped. That would be the third time in the past four months that the backlog has shrunk, indicating that the durable goods sector has little reason to increase output in the fourth quarter.

EMPLOYMENT COSTS

Thursday, Oct. 25, 8:30 a.m.

The cost of wages and benefits in the private sector in the third quarter probably climbed by about 5.2% above the level of a year ago, according to expectations of the MMS economists. That's the same rapid pace recorded in the second quarter and slightly faster than the yearly clip of the third quarter of 1989. Increases in employment costs should begin to edge down as the economy becomes mired in recession. Slack hiring and layoffs will hold down wage gains and benefit demands.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OCTOBER 29, 19

SQUEEZE, SQUASH, SCRUNCH

PROFIT MARGINS ARE FEELING IT FROM ALL SIDES

Harried executives poring over income statements can read the news in big letters. Everywhere in Corporate America, the squeeze is on. Costs are up. Markets are soft. Consumers aren't buying as much of what companies are selling—especially not at marked-up prices. The result is clear from BUSINESS WEEK's flash survey of third-quarter earnings: Profit margins are under intensifying pressure.

The early third-quarter returns show falling operating margins from the same quarter in 1989 for fully half the companies reporting (table). The victims ranged from giant Aluminum Co. of America, which saw falling aluminum prices slash earnings 43% from 1989's highs, to Thomas Industries Inc. in Louisville, which posted a 21% drop in earnings, to $3.1 million, as slumping construction undercut sales of its light fixtures. "Politicians talk about no recession," gripes Phillip J. Stuecker, chief financial officer at Thomas. "They ought to see it from our side."

Margins have been under pressure for some time, but the surge in oil prices since Iraq's invasion of Kuwait a worsened the problem (page 23). I there's a bright side to the earni crunch, it's that the inflationary imp of more expensive oil should be mu Most companies just can't make p hikes stick. Ultimately, that promise t make it easier for the Federal Rese to push interest rates down.

DIET TIME. Still, the squeeze on profit is bad news if you're looking for w "Companies are geared up to handle s year's growth, but the growth just i there," says Cynthia Latta, an econo

HIGHER COSTS, SOFT DEMAND: TWO PRESSURE POINTS

International Paper's sales are up 14%, but the paper industry is plagued by excess capacity. So IP's prices are staying flat—or even falling—while costs are rising 3% to 4% a year. The result: A profit crunch. At Alcoa, a thorough restructuring has left the company with low costs and little exposure to rising energy prices: It switched from costly oil-fired smelters to hydroelectric and coal plants. But the sluggish economy has pared demand for aluminum, squeezing Alcoa's prices. The consequence is a 6% drop in sales—and plummeting profits

PAPER PINCH: DESPITE AN INCREASE IN SALES OF 14%, INTERNATIONAL PAPER SAW ITS PRO

DRI/McGraw Hill. Now that profits being pared, says Glenn W. Forman, nior economist for WEFA Group, com- ies will "wake up and say, 'Time to down.'" That means that a recent p in unemployment, to 5.7%, is only beginning of a wave of layoffs.

ot surprisingly, cyclical businesses leading the way down. The construc- slump has taken a heavy toll on st-products companies such as Boise cade Corp. and Willamette Industries Papermakers, whose sales of card- rd packaging closely track industrial out, are hurting. Witness Internation- aper Co., where profits fell 16%.

he recessionary economy is giving a st to some. Take Coca-Cola Co., se profits rose 9%, and Pepsico Inc., ch gained 30%. Folks may not be ing cars or houses, but they'll still for a Coke and a bag of Fritos. In a np, eating at home replaces going —good for grocers such as Safeway es Inc., where sales in stores open e than a year are up 3.9%.

ne economic slowdown will eventual- ut the brakes on inflation—but it's l to tell that at the moment. The -doubling in oil prices since Aug. 2 is dominating the price picture. September's 1.6% hike in producer prices translates to an annual wholesale inflation rate of 21% (chart), and consumer inflation is expected to hover close to double digits throughout the fall. DRI projects that wholesale energy costs will increase at a breathtaking 240% annual rate in the fourth quarter—and that's even if oil prices average less than the current $38 a barrel.

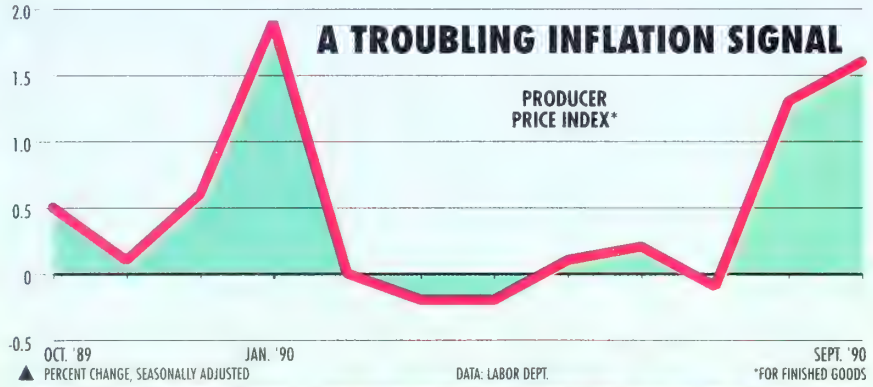
> In a slump, eating at home replaces going out, and that's good for grocers such as Safeway

But even the oil companies are having a hard time recouping their rising costs. While the price of crude rose almost $16 a barrel from July to September, gasoline pump prices rose only $9.66 a barrel. Some integrated oil companies, which both produce and buy crude, are hit hard by the higher costs of their feedstock. Profits could fall 13% or 14% from 1989 at British Petroleum PLC and Mobil Corp., estimates Frederick P. Leuffer, an analyst at C. J. Lawrence, Morgan Grenfell Inc.

A few companies are managing to pass along higher oil prices. With the cost of petroleum-based plastic resins up 25%—and expected to rise another 25% in the fourth quarter—Sonoco Products Co. in Hartsville, S. C., has hit supermarkets with higher prices for shopping bags. "Customers aren't happy about it, but for the most part they understand," says F. Trent Hill Jr., vice-president for finance. "We can't eat that kind of increase." Airlines have pushed through a variety of price hikes to reflect rising fuel costs, and Roadway Services Inc.'s freight-hauling unit has instituted a fuel surcharge that now tacks 2.2% onto its shipping rates.

'TOO MUCH OIL.' But for most industries, this oil shock won't translate into 1970s-style price hikes, largely because it hits when the economy is sliding and debt-laden consumers are feeling pinched. When the full impact of high-cost oil hits the forest-products industry next year, says George E. Pfautsch, chief financial

RING THE THIRD QUARTER OF 1990



LESS ALLURING ALUMINUM: ALCOA'S THIRD-QUARTER PROFITS DROPPED 43% FROM 1989

THIRD-QUARTER PROFITS: THE BAD NEWS STARTS ROLLING IN

It's a painful preview: As rising oil prices begin to be felt, companies' costs are on the way up. But a sluggish economy and a skittish consumer are making it tough to pass those costs along. The upshot: Falling margins for half the 60 companies on this list.

	Sales $ mil.	% chg. vs. 1989	Profits $ mil.	% chg. vs. 1989	Margins 1990	Margins 1989
ABBOTT LABORATORIES	$1,506.8	+15%	$220.8	+13%	14.7%	15.0%
ALCOA	2,676.1	-6	125.1	-43	4.7	7.7
AMERICAN CYANAMID	1,056.3	+9	-154.0	NM	NM	5.3
BOISE CASCADE	1,054.0	-3	13.9	-78	1.3	5.8
CBS	662.2	+12	43.5	-30	6.6	10.4
COCA-COLA	2,792.8	+27	394.2	+9	14.1	16.4
COCA-COLA ENTERPRISES	1,067.3	+4	19.0	+49	1.8	1.2
CORNING	956.2	+32	103.5	+36	10.8	10.5
CPC INTERNATIONAL	1,453.6	+13	98.6	+13	6.8	6.8
CSX	2,063.0	+9	101.0	+7	4.9	5.0
DOW JONES	408.5	+1	23.8	-18	5.8	7.1
E-SYSTEMS	438.7	+9	24.1	+13	5.5	5.3
ETHYL	624.2	+2	56.2	+3	9.0	8.9
GENERAL ELECTRIC	14,200.0	+9	1,026.0	+9	7.2	7.3
GOODRICH (B. F.)	634.5	+6	50.6	+29	8.0	6.5
GTE	4,554.0	+5	408.8	+11	9.0	8.4
HASBRO	448.8	+11	33.1	+6	7.4	7.8
HILTON HOTELS	260.1	+8	21.9	-22	8.4	11.7
HONEYWELL	1,561.9	+4	86.8	+28	5.6	4.5
IBM	15,277.0	+7	1,112.0	+27	7.3	6.1
IBP	2,626.6	+14	16.1	+38	0.6	0.5
INTEL	1,012.4	+31	171.9	+139	17.0	9.3
INTERNATIONAL PAPER	3,300.0	+14	181.0	-16	5.5	7.5
KIMBERLY-CLARK	1,575.1	+8	123.3	+13	7.8	7.5
LANCE	101.7	+1	10.4	-7	10.2	11.1
LOTUS DEVELOPMENT	157.4	+2	8.6	-63	5.4	14.9
MARRIOTT	1,657.0	-2	27.0	-48	1.6	3.1
McGRAW-HILL	502.8	+11	67.4	+5	13.4	14.2
MCI COMMUNICATIONS	2,003.0	+19	-168.0	NM	NM	9.8
MEAD	1,268.2	+6	39.7	-43	3.1	5.8
MERCK	1,914.3	+17	465.0	+19	24.2	23.9
MERRILL LYNCH	2,870.0	+1	46.1	+12	1.6	1.4
MOTOROLA	2,703.0	+12	102.0	+15	3.8	3.7
NCR	1,520.0	+9	91.0	-3	6.0	6.8
OCCIDENTAL PETROLEUM	5,350.0	+11	111.0	+68	2.0	1.4
ORYX ENERGY	514.0	+74	48.0	+700	9.3	2.0
PEPSICO	4,475.7	+15	350.3	+30	7.8	6.9
PHELPS DODGE	674.2	+4	126.2	+9	18.7	17.9
PHILIP MORRIS	12,818.0	+16	937.0	+25	7.3	6.7
POLAROID	463.7	+6	31.3	+5	6.8	6.8
POTLATCH	314.3	-1	24.7	-30	7.9	11.0
RAYTHEON	2,241.0	+2	138.0	0	6.2	6.3
REYNOLDS METALS	1,535.6	+1	100.8	-19	6.6	8.1
ROADWAY SERVICES	703.5	+13	34.5	+46	4.9	3.8
RUBBERMAID	364.0	+4	38.3	+18	10.5	9.3
SAFEWAY	3,465.6	+5	20.8	+194	0.6	0.2
SCRIPPS (E. W.)	321.7	+6	17.4	-3	5.4	5.9
SERVICE MERCHANDISE	657.9	+6	-7.3	NM	NM	NM
SHERWIN-WILLIAMS	638.5	+7	46.7	+12	7.3	7.0
SONOCO PRODUCTS	415.6	+3	-28.9	NM	NM	6.4
SOUTHWESTERN BELL	2,367.7	+7	323.6	+10	13.7	13.4
TELEDYNE	846.4	-3	9.1	-79	1.1	5.0
TEMPLE-INLAND	604.5	+23	56.5	+2	9.3	11.3
TRW	2,012.0	+12	46.0	-23	2.3	3.3
U. S. SURGICAL	134.9	+58	12.4	+67	9.2	8.6
UNITED TELECOMMS.	2,101.3	+9	89.7	-5	4.3	4.9
UPJOHN	747.1	+13	112.2	+11	15.0	15.3
WARNER-LAMBERT	1,186.7	+7	124.8	+17	10.5	9.7
WESTINGHOUSE ELECTRIC	3,175.0	+2	255.0	+9	8.0	7.5
WILLAMETTE INDUSTRIES	483.6	-1	31.3	-41	6.5	10.9

NM = not meaningful

DATA: STANDARD & POOR'S COMPUSTAT SERVICES INC.

officer for Potlatch Corp., "there will be a squeeze. Hopefully, we'll be able to pass along some. It's doubtful we can pass along all of it."

Even if oil prices don't back down, inflation forecaster Donald Ratajczak of Georgia State University predicts that consumer inflation will be back to 4% again within six months. Inflation could fall further, he notes, when "the oil traders discover that we have too much oil to support $40 a barrel." Soft prices for nonoil commodities have also cushioned the blow (page 86). Some manufacturers have moved to insulate themselves from higher oil. Alcoa, for example, has switched from oil-fired to hydroelectric and coal-powered smelting.

Holding the line on inflation, however, will exact a heavy toll on companies and the economy. Package maker Sonoco took a $55 million aftertax hit in a restructuring that eliminates 500 jobs. Among small companies surveyed by the National Federation of Independent Business, 13% plan to boost hiring—but that's matched by 13% that expect fourth-quarter layoffs. The share of small businesses expecting to make capital investments slipped to 27%, the lowest level since 1986. Larger companies' capital spending isn't immune either. Dow Jones & Co. has frozen capital expenditures, and Roadway Services has slashed its planned investments for 1990 by 25%, to $210 million.

LITTLE COMFORT. The bleak employment outlook will help keep inflation down, too, since workers aren't likely to press hard for higher wages to cover the rising cost of gasoline. Researchers at the Federal Reserve Bank of San Francisco calculate that companies and workers recouped 75% of the 1974 and 1979 oil-price hikes in prices and wages. But this time, researchers say, "the oil-price shock is not likely to set off a wage-price spiral."

Fed policymakers realize that they have to look beyond the oil shock's immediate inflationary effects. They're increasingly tilting toward lowering interest rates to help the faltering economy. But Chairman Alan Greenspan remains worried that global financial markets don't yet see recession as a bigger risk than inflation, and they might interpret a Fed easing as an attempt to soften the blow of costlier oil with looser money.

If the Fed acts soon, it could prevent the slump from turning into a deep, prolonged recession. But that's little comfort to executives caught between rising costs and sagging markets. For them and their workers, the pain has already begun.

By Mike McNamee in Washington, with Zachary Schiller in Cleveland, Stephanie A. Forest in Atlanta, and bureau reports

Commentary/by Howard Gleckman

THE REAL DEFICIT DEBATE? IT'S ALREADY OVER

ife in Washington follows a few simple rules. One is this: Whenever Congress and the President are ed with a truly big decision, they'll to duck it. Instead, they will fixate a matter with great symbolic mean- but no real-world consequences. 'ake the tax debate. For a while, it ked as if Democrats and Republis were going to slug it out over the damental issue of who should pay government. But the politicians are ending most of their energy on a ch smaller piece of the fairness de- e: the infamous "bubble," an 11th- ır curiosity of the Tax Reform Act 1986 that imposes a higher marginal e on the well-off than the truly rich. Democrats, who have been trying to ke fairness an issue for a decade, ise a good thing here. The Republi- ı Party has had great success when question is to tax or not to tax. But en the issue becomes who pays, the ıate is squarely on Democratic turf. belatedly, GOP lawmakers have ıped in with their own cries of tax tice for the middle class.

PTY COFFERS. But when Congress l President Bush had a real opportuy to tackle the question of fairness, y took a powder. Their chance came Oct. 10, when the Senate belatedly k up a proposal offered by Senator niel P. Moynihan (D-N. Y.) to give llions of working Americans a cut in Social Security payroll tax. When Moynihan raised it nearly a ar ago, the issue was the talk of ashington. His argument is simple: ı paper, the Social Security trust nd is piling up surpluses to finance the baby boomers' retirement, beginning in 2010. But it doesn't really work that way. Instead, the government is spending the extra money—about $70 billion this year—to finance its deficit. When the bills come due next century, there will be nothing in the coffers but dusty IOUs.

Moynihan said, let's end the fiction and cut the regressive payroll taxes by $100 billion over five years. A working stiff would get a nice tax break—about $300 a year for someone earning $26,000—and the Democrats would help erase their image as the party that never met a tax it didn't like.

Of course, the deficit would rise unless the revenue was made up with other tax increases or spending cuts. That's just the point. Agree with him or not, Moynihan would have forced Congress and the President to end the phony accounting, face up to the real fiscal deficit, and decide who should be taxed to fund the government's current spending. It was a golden opportunity for Democrats to remake the tax system into one that's fairer to the middle class—and for Republicans to force spending cuts and do their bit for Joe Six-Pack.

The Moynihan plan wasn't perfect. For one thing, it failed to address the potential bankruptcy of the retirement system in the early 21st century. But it wasn't this deficiency that killed Moynihan's proposal. Instead, it died on a technicality. The plan violated budget rules, said a suddenly punctilious Senate, which has waived that law scores of times in the past for far more parochial legislation.

Most Democrats voted with Senator Moynihan. But some, including Majority Leader George J. Mitchell (Me.), tax reformer Bill Bradley (N. J.), and arch-liberal Edward M. Kennedy (Mass.), voted to block the bill from coming to a vote. Mitchell feared that the proposal's passage would torpedo the delicate budget negotiations. Liberals worried that a big tax cut would lead to new budget reductions for their cherished social programs.

FURRIER FRIENDS. Still, Democrats didn't abandon the middle class completely. In the House, they decided to exempt furs costing less than $10,000 from a new 10% luxury tax. Fur industry lobbyists had argued that the original proposal to tax coats costing more than $5,000 would keep middle-income people out of the mink market.

Most Republicans also opposed Moynihan, although some, including conservatives Robert W. Kasten Jr. (Wis.) and Trent Lott (Miss.), supported the New Yorker. President Bush, who points to Capitol Hill and says, "the buck stops there," quietly worked to kill the Moynihan measure. The GOP will fight to the end for "growth-oriented" tax breaks that benefit mainly the wealthy, but it showed little stomach for a fight on behalf of its newfound middle-class constituents.

Senator Moynihan says he will offer the proposal again next year, but there's no reason to believe it will do any better. After all, when given the choice of addressing a fundamental question or just talking about it, Congress and the President will go for the gab every time.

POLITICS

IN MASSACHUSETTS, OF ALL PLACES, IT'S OPEN SEASON ON LIBERALS

Senator John Kerry finds himself in the sights of a GOP upstart

RAPPAPORT AND WIFE STUMP WHILE AN AIDE HOLDS A PICTURE OF KERRY AND DUKAKIS

It's afternoon rush hour in Springfield, Mass., and James W. Rappaport, the underdog Republican trying to unseat Senator John F. Kerry, is leading placard-waving supporters in a march across the town common. But does political unknown Rappaport seize this opportunity to buttonhole voters? No way. Instead, the 34-year-old Boston real estate developer leads his band straight into his new storefront campaign office.

Normally, a candidate who lacks the political instinct to press the flesh would be headed for oblivion. That's especially true since the conservative Rappaport is up against a well-known liberal in a state that hasn't elected a Republican to statewide office since 1972.

But this is the year the Massachusetts Miracle became the Massachusetts Massacre. Outraged by big tax hikes, a slumping economy, and the spectacle of disgraced Governor Michael S. Dukakis playing out his last days in office amid budgetary chaos, Bay State voters are rebelling. Democrats nominated Boston University President John Silber, an outsider, for governor and dumped party regulars from other state offices. Kerry, who was unopposed in the otherwise bloody primary, is running scared. Polls show him with only a single-digit lead.

First-termer Kerry, 46, has long worn his liberalism on his sleeve. In the early 1970s, he helped found Vietnam Veterans Against the War. In the Senate, he's a doctrinaire liberal and ardent foe of interventionist foreign policy, especially in Central America. An experienced fund-raiser, he hopes to outspend Rappaport by $3 million. The GOP upstart has financed his campaign largely with $2.3 million of his own money.

But more money may not do the trick this time around. "This is no year to be an incumbent in Massachusetts," says Auditor General A. Joseph DeNucci, chatting with Democratic activists at a suburban Boston country club, while Kerry, in a back room, urges local party leaders to help raise more funds for him. "People are angry," says DeNucci. "They could throw us all out."

WAYWARD SON. Rappaport seems an unlikely leader of a popular uprising. His father, Jerome, is a controversial developer who was once closely tied to Boston's Democratic machine. Young Rappaport is cut from different cloth. He espouses a string of New Right nostrums ranging from deep cuts in capital-gains taxes to tax credits for child and nursing home care. "You don't have to read my lips," he declares. "Just wa my votes. No new taxes."

Such views may not sell in mos black Roxbury or liberal Brookline. Rappaport is poised to tap into worki and middle-class resentment. He has e braced Question 3, a ballot proposit that would cut taxes by $2 billion about 15% of the state budget. Ke opposes the idea, although polls show majority of voters favor it.

But issues are secondary to emotio in this campaign. Rappaport has be hammering away for months with a si ple message: I'm an outsider. Kerry not only an incumbent but also on served as lieutenant governor to the spised Dukakis. Rappaport regularly fers to Kerry as "Mike Dukakis' amb sador to Washington." Says Rappap spokesman Richard Gaines: "If this ra comes down to anything other than referendum on change, we lose."

THRIFT MUD. After weeks of enduri Rappaport's assaults, Kerry is starti to fight back. Rappaport's charge th Kerry enlisted former Centrust Savin Bank Chairman David L. Paul in Mia as a top party fund-raiser has be blunted by new disclosures. The GOP ca didate turned a handsome $4 milli profit on the sale of a Hawaiian res property that he bought at bargain-ba ment prices from a failed thrift in 19

Kerry also blasts Rappaport for bei secretive about his tax returns, for posing an expensive highway project signed to unsnarl Boston's notorio downtown traffic, and for accepti $10,000 in subsidies for his family's V mont dairy farm. Rappaport's respon The subsidies pale in comparison to K ry's use of free mailing privileges.

In the race's final weeks, Kerry ahead on points, but wears the daz look of a fighter who just wants to ma it through the last round. As the conte gets nastier, however, negati perceptions of both candidat are soaring. "Voters don't li either of these people," sa Boston pollster Barry Kap vitz. "Kerry's strengths are best hidden. Rappaport is D Quayle without the golf."

Kerry, for his part, seems philosop cal about the political currents th could suck him under. "People are dar mad," he says as his car bumps along a swing through the Boston suburb "I've got to break through all this a ger." And if he can't? "You just take t bounce," Kerry shrugs. "If people a going to be fooled, fine. It's not the e of my life." Maybe just the end of h big-time political ambitions.

By Douglas Harbrecht in Springfie and Geoffrey Smith in Boston

SON: MAKING AN ISSUE OF THE FORMER MAYOR'S WELL-HEELED CONTRIBUTORS

PLITTING HAIRS I CALIFORNIA

nstein and Wilson are scrambling to show voters they're different

he turbo engines of the private jet growl in the Santa Monica morning. As the plane takes off, Pete son, California's junior senator, scans morning headlines. Quickly finding article about Democratic Louisiana ator J. Bennett Johnston's tion victory over white supremacist David Duke, Wilson ns envy. "Heck," he mutters in the general direction of aide, "why can't you get me Klan member to run inst?"

A Klansman would at least hold views clear opposition to Wilson's own. Indeed, Wilson, the former San Diego yor and a two-term U.S. senator, is ning against former San Francisco yor Dianne Feinstein for the right to ceed Governor George Deukmejian. eir positions on such hot-button issues abortion rights and the death penalty identical (they're in favor of both). lson holds a bare 47% to 42% lead, ording to the latest statewide poll—rcely more than the sampling's own % margin of error. In a race as close this one, voters are looking for a reason to prefer one candidate over the other. So now, just weeks before Election y, Wilson and Feinstein are resorting a $1 million-a-week media blitz, a new nd of mudslinging, and a pair of pop-r ballot initiatives.

Despite the straining to create difference where little exists, the race bristles with national significance: California will pick up seven new House seats in 1992. Whoever is governor will work closely with the Democrat-controlled state assembly on redrawing congressional districts. An effective chief executive could play a key role in determining the makeup of the U.S. House of Representatives.

Fund-raising has dominated both campaigns since mid-September, when a federal judge struck down California's campaign-contribution limits. Within days of the ruling, Feinstein had pocketed a $150,000 check from California Highway-Patrol officers and $50,000 more from comedian Chevy Chase. In all, she raised nearly $2 million in three weeks of high-profile fund-raisers, narrowing Wilson's commanding money advantage. By November, the former San Francisco mayor expects to have spent $13 million, while Wilson's spending will approach $20 million.

When not collecting checks, the two sides have been running high-gloss commercials and engaging in attack by fax machine. Churning out press releases dripping with mud, Wilson questioned the sources of Feinstein's money and even charged her with cheating during an Oct. 7 debate by writing on her hand. Feinstein's answering barrage of attacks on Wilson's poor attendance record in the Senate sent the GOP candidate scurrying back to Congress to cast well-publicized votes on agriculture and civil-rights measures. "I'm glad Senator Wilson has finally seen the light or read the polls," Feinstein sniffed as her opponent headed to Washington.

CHAMELEON. The race is one of the closest this year, but political analysts give Wilson the slight edge. A veteran of 24 years in politics, the 57-year-old former Marine is a political chameleon. A fiscal conservative who fervently opposes tax increases, he curries favor with socially liberal Californians by pushing for new agencies for the environment and child nutrition. A major recipient of oil-company money, he steadfastly opposes drilling off the state's coast.

With the majority of California voters in the southern part of the state, northerners like Feinstein rarely win in statewide races. Of late, Feinstein, age 57, has also been losing her once-huge lead among women voters. To climb back, she's summoning all of her considerable oratorical abilities, which are superior to Wilson's draggy monotone. And one of her commercials dramatizes her coolness in times of crisis by chronicling her rise to power when former Mayor George Moscone was gunned down in City Hall.

Both candidates are still looking for that one magic issue that will lock up the race. Wilson has seized on a hugely popular ballot initiative that would limit state officeholders to no more than eight years in office. Feinstein is trumpeting her endorsement by the Sierra Club and her own support of the "Big Green" initiative to appoint an environmental czar to clean up the state's air and water.

Neither stand has galvanized the voters yet. "This is all just the preliminary event," says Democratic activist Mickey Kantor. "People in this state won't even focus on this race until the World Series is over." Then, an even bigger media barrage will begin. And California's notoriously fickle voters will have to decide between two candidates who don't disagree on much besides each other.

By Ronald Grover in Bakersfield, and Joan O'C. Hamilton and Barbara Buell in San Francisco

FEINSTEIN: HAMMERING THE SENATOR'S MISSED VOTES

AVIATION

IT'S FAT AND SNAZZY— AND WORTH BILLIONS TO BOEING

Oversize wings and all, the 777 widebody gets its first customer

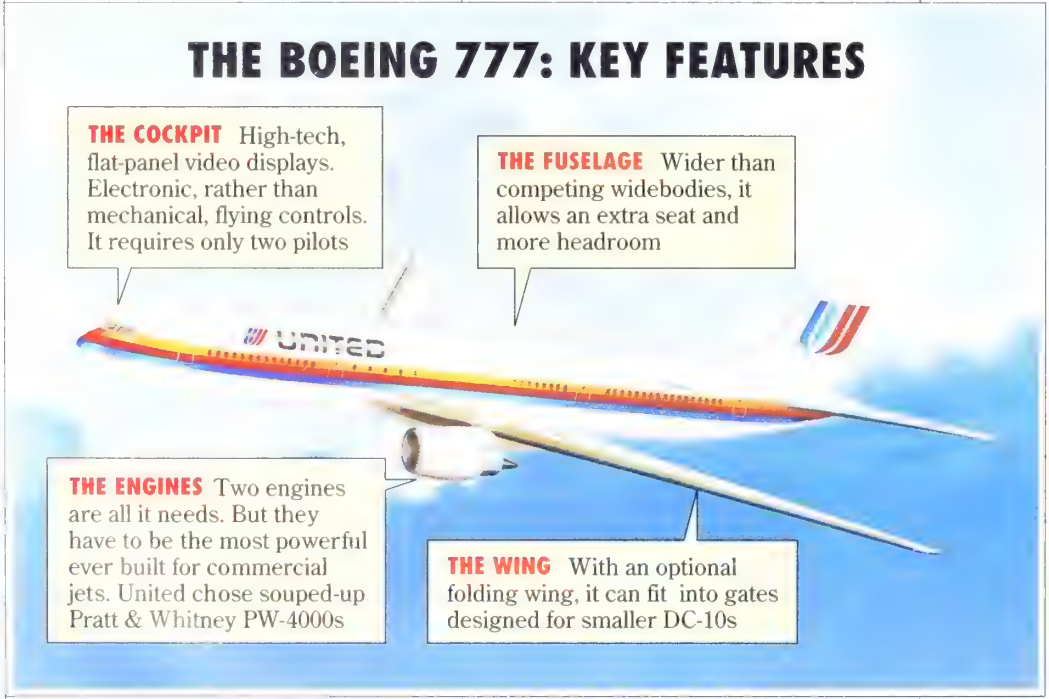
It's almost as big as a 747 jumbo jet, but flies with two engines, not four. From its state-of-the-art cockpit, just two pilots control the wing flaps, tail, and other parts with electronics instead of mechanical cables. A wider cabin allows for more elbow room than rival widebodies. Newly designed baggage bins leave lots of ceiling room. It's a fat plane with a long, slender wing. So long, in fact, that airlines will have the option of ordering wingtips that fold up conveniently as the plane approaches the gate.

Meet Boeing Co.'s newest plane, the 777. It won't be flying commercially until 1995. But after two years on the electronic drawing boards, it's about to be launched into production. A $22 billion jet order by United Airlines Inc. on Oct. 15, including 34 firm orders and 34 options for the 777, assures Boeing of at least one customer. And other carriers, led by Japan's All Nippon Airways Co., may follow soon. With United's clear vote of confidence, Boeing's board is almost certain to free up the estimated $4 billion needed to complete the company's first all-new airplane since 1978.

Except for its new wing, the 777 isn't much of a ground-breaker. Similar high-tech electronics are already in use on planes manufactured by rival Airbus Industrie. But the 777 fills a gaping hole in Boeing's product line—a hole that Airbus and McDonnell Douglas Corp. are already exploiting with competing planes. All three see a huge market in replacement of aging DC-10s and Lockheed L1011s, the workhorses common on transcontinental flights. Boeing figures this market to be as much as two-thirds of the $626 billion in total worldwide jet demand that it projects between now and the year 2005.

Few air travelers will have a chance to kick the tires on the new 777. But anyone who often flies long routes across the U. S. or between the West Coast and Hawaii is likely to fly on one. The initial version, bought by United, will fly 4,800 miles nonstop and seat 360 to 390 passengers. A second, longer-range version will be able cover 7,800 miles—Frankfurt to Los Angeles or Sydney to Tokyo—with 290 seats.

SQUEEZE PLAY. The most distinctive feature on some 777s will be their folding wingtips. The option is for airlines that need to squeeze the plane into gates designed for smaller jets. A full 20 feet of each 777 wing will fold up after landing, locking back into place before takeoff.



At first, Boeing balked at this featur initially requested by American Airline Inc., another potential customer. A though military airplanes have use folding wings safely for decades, they' never appeared on a commercial jet. "' they ever failed in flight," says Gordo McKinzie, United's manager for ne technology engineering, "you'd probabl lose the airplane."

McKinzie is confident Boeing has e sured the safety of the folding wing but United is still wary of the cost an difficulty of maintaining them. Unite initially ordered the 777s without th feature, but has until July to decid whether to ante up the extra $4 millio per airplane to get them.

FLEXIBLE FLIER. On the inside, the 777 five inches wider than Douglas' MD- and two feet wider than the Airbu A330/340 planes. It will have a highe rounder ceiling. Airlines can put a many as 10 or as few as six sea abreast. That gives them the flexibilit to compete on comfort or c low fares. And if the change their mind, the cab can be reconfigured with hours at an airport. Unite plans to load its 777s wit options. It will equip eac seat with video screens f movies and a headset tel phone hooked into th plane's satellite communic tions network.

Boeing, of course, is ta ing on an enormous cha lenge to introduce the 7 while the economy is beir buffeted by the fuel-pri shock and the threat of r cession. "It takes a lot courage to launch an indu trial program in this unce tain economic environment says analyst Howard A. R bel of C. J. Lawrence, Mo gan Grenfell Inc. Thirty-fo firm orders is a good sta but Airbus and Douglas t gether already have 390 solid comm ments for their 777 competitors.

Although Boeing won't reveal its nancial arrangements with United, o executive at the airline says the Seatt company was "very aggressive" in d counting its planes and providing assu ances of hefty seller financing. That no surprise given the hot pursuit b Airbus and Douglas. "Over the lo term, it's best to come out with ne products to remain viable," says Boei Chairman Frank A. Shrontz. Given t hole in Boeing's lineup, this produ is crucial.

By Dori Jones Yang in Seat

JNNY, BUT THE TALK ROUND USX IS FRIENDLY

specter of Carl Icahn has both sides shooting for an early contract

INION WANTS THE USX CONTRACT TO INCLUDE WORKERS AT SPIN-OFFS SUCH AS USS/KOBE

he labor talks that got under way at USX Corp. on Oct. 15 seem to have all the makings of a nasty l. The United Steelworkers is de- ding everything it gave up after a nonth lockout that ended in 1987— more. True, USX's steel unit is hy again, and the No. 1 steelmaker plead poverty. But with a looming ssion that threatens to wipe out ts, you might expect both sides to irding for the worst.

r from it. USX asked to start talks and even is shooting for a new by mid-November, months before ontract ends on Feb. 1. The reason mple. Under pressure from investor C. Icahn, USX has been shopping its division. No buyer has emerged for whole unit. So USX is pursuing other s, such as a partial sale in a stock ing, joint ventures with other steel- ers, or the sale of individual plants. with Icahn, who owns 13.3% of s stock, saying he wants to throw management at next April's annual ing, the company must act fast. y need a labor agreement to do al- anything," says Charles A. Brad- an analyst at UBS Securities Inc.

GAP. The result: friendly talk of a that hasn't been heard around USX years. Under Thomas C. Graham, steel unit's former president, USX some of the nastiest labor relations he country. Graham's successor, nas J. Usher, who took over Oct. 1, s intent on changing this: "It's important that we go in with an open mind and not a lot of preconditions."

Still, it will take tough bargaining to bring the two sides together. USX's steel unit has earned $1.2 billion in operating profits since 1986. So union leaders want to close the gap between USX's $25-an-hour labor costs and those of its rivals. They want a pay hike of $2.50 an hour phased in to bring members in line with other steel company contracts over the next three years. The union thinks USX should pay even more because it won a four-year deal in 1987, after other steelmakers accepted three-year ones.

USX seems willing to move pay rates toward the industry average. But margins already are being squeezed. Analysts estimate USX will earn operating profits of $26 a ton in 1990, compared with $37 in 1989. And PaineWebber Inc. analyst Peter Marcus forecasts only $5 a ton next year. To offset this, management wants to raise pay with ideas such as sweetening USX's profit-sharing plan, a move the union probably would resist.

ICAHN'S SHADOW. The two sides are likely to tangle over nonmonetary issues, too. The union wants to ensure that all USX members get similar treatment in any spin-off or joint venture. One method: Impose the master USX contract on new owners. The union also may ask for preference to buy operations through employee stock-ownership plans.

A test case is the USS/Kobe Steel Co. This joint venture was formed last year, when USX spun off its Lorain (Ohio) bar plant into a separate company that is 50%-owned by Japan's Kobe Steel Ltd. The union is engaged in separate bargaining there and intends to make it a condition of the new USX contract that the joint venture adopt similar terms.

The contentious legacy left by Usher's predecessors may make it tough for him to win an early deal, no matter how good his intentions. Usher is aware of the ill feelings and says "we've got to put that behind us." If he can do that, USX management may be able to pull off its defensive moves—and keep out of Icahn's way next April.

By Michael Schroeder in Pittsburgh

ECONOMICS

HURRAH FOR THE FOUNDING FATHERS OF MODERN FINANCE

The Nobel prize goes to three economists for investment theory

t's like the difference between a monk and Madonna. Last year's recipient of the Nobel Memorial Prize in Economic Science was an obscure Norwegian whose feats were recalled by only a few fans. The three who won this year—Harry M. Markowitz of Baruch College of the City University of New York, Merton H. Miller of the University of Chicago, and William F. Sharpe of Stanford University—are heroes to a generation of money managers and corporate financiers. What's more, their work touches everyone who has a pension or works for a big company. "They focused attention on risk—measuring it, controlling it," says Fischer Black, an economist and partner at Goldman, Sachs & Co.

This is the first time the economics award has gone for finance—and that it has been split three ways. Miller, for one, has no problem sharing it with "two old friends." There's enough glory to go around. The three men, working independently in the 1950s and 1960s, created the theory of modern finance. Their pioneering approaches—Markowitz's portfolio theory, Sharpe's capital asset pricing model, and the Modigliani-Miller theorem—are the direct predecessors of quantitative investment techniques

such as computerized program trading.

The ideas underlying their theories are simple enough, even if the mathematics isn't. In 1955, Markowitz first showed how investors could reduce risk by properly diversifying. Several years later, Sharpe proved there's no free investment lunch: In a well-functioning market, the only way to get higher returns is to accept higher risks. About the same time, Miller, along with 1985 Nobel Laureate Franco Modigliani, showed that markets shouldn't care whether a company finances growth via debt, equity, or retained earnings. Only the company's underlying value matters.

These insights generated an explosion of research. But they also yielded plenty of practical uses, since they gave anyone who could understand the math a big edge. The most popular tool was the forbidding "beta," which took the investment world by storm in the 1970s. The beta of an asset, such as a stock, measures how risky it is relative to the rest of the market. Using this information, an investor could make an informed choice between a high-risk, high-return portfolio or a low-risk, low-return one.

These theories are now taught to almost every business school student and are used widely on Wall Street. Sharpe even has put his own work into practice by advising a few pension funds and other investors on asset allocation.

BEEFED UP. The new Nobelists' theories fell into some doubt during the financial boom of the 1980s, when they "didn't work so well," notes Burton G. Malkiel, an economist at Princeton University. First, high-beta stocks did not beat the bull market, as Sharpe's original model would have predicted. Next, merger mania appeared to contradict Miller's initial papers, which suggested few benefits from changes in financial structure.

But the winners' early models have since been beefed up to account for developments in the real world. The merger movement showed that changes in financial structure could affect a company's value—for example, Miller says, when "companies with more debt work a little harder." And investing has come a long way since Sharpe's original paper. "Everybody uses more complex approaches," says Sharpe, "but I like to think that the basic insights survived."

Indeed, they're being pushed further. Dean LeBaron, the head of Batterymarch Financial Management, argues that the same principles of diversification can be used to lower the risk of investment in Latin America, the Soviet Union, or China. If so, the contributions of Markowitz, Sharpe, and Miller truly will have brought an even higher return.

By Michael J. Mandel in New York

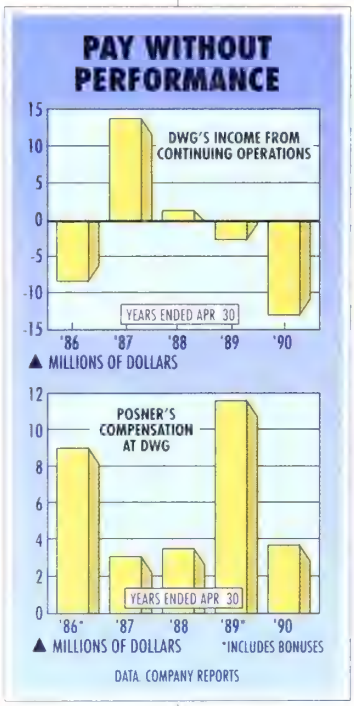
Commentary/by Gail DeGeorge and Antonio N. Fins

THE POSNER PRINCIPLE: WHEN GOLIATH CONTROLS THE COMPANY, LOOK OUT

Minority shareholders of DWG Corp. endured an exercise in futility and frustration on Oct. 12. That's when DWG Chairman Victor Posner held the company's first "annual" meeting since 1986. The gathering degenerated into a raucous affair, with catcalls and accusations shouted from the floor by shareholders. They have watched their stock plummet 75% from its 12-month high, while DWG rewarded Posner with hefty compensation and paid lavish rents and made generous loans to other entities in his dwindling empire. "Point of order," yelled one shareholder as the board considered a new bonus plan for Posner and other managers. "This sucks."

With Posner and his relatives holding 47% of DWG shares, the meeting became an example of the tyranny of the near-majority. Ignoring an alternate proposal from the floor, Posner presented a slate of 10 directors. When he moved to adjourn the meeting, a small cadre of supporters voted yes while the other shareholders loudly protested. In a statement after the meeting, DWG said more than 90% of the voting shares approved its proposals. "Never have I seen something so obscene," says Roger Gaeckler, a Smith Barney, Harris Upham & Co. broker who owns 9,000 shares. "I thought I was in Iraq, and he was Saddam Hussein." Posner declined to speak to BUSINESS WEEK.

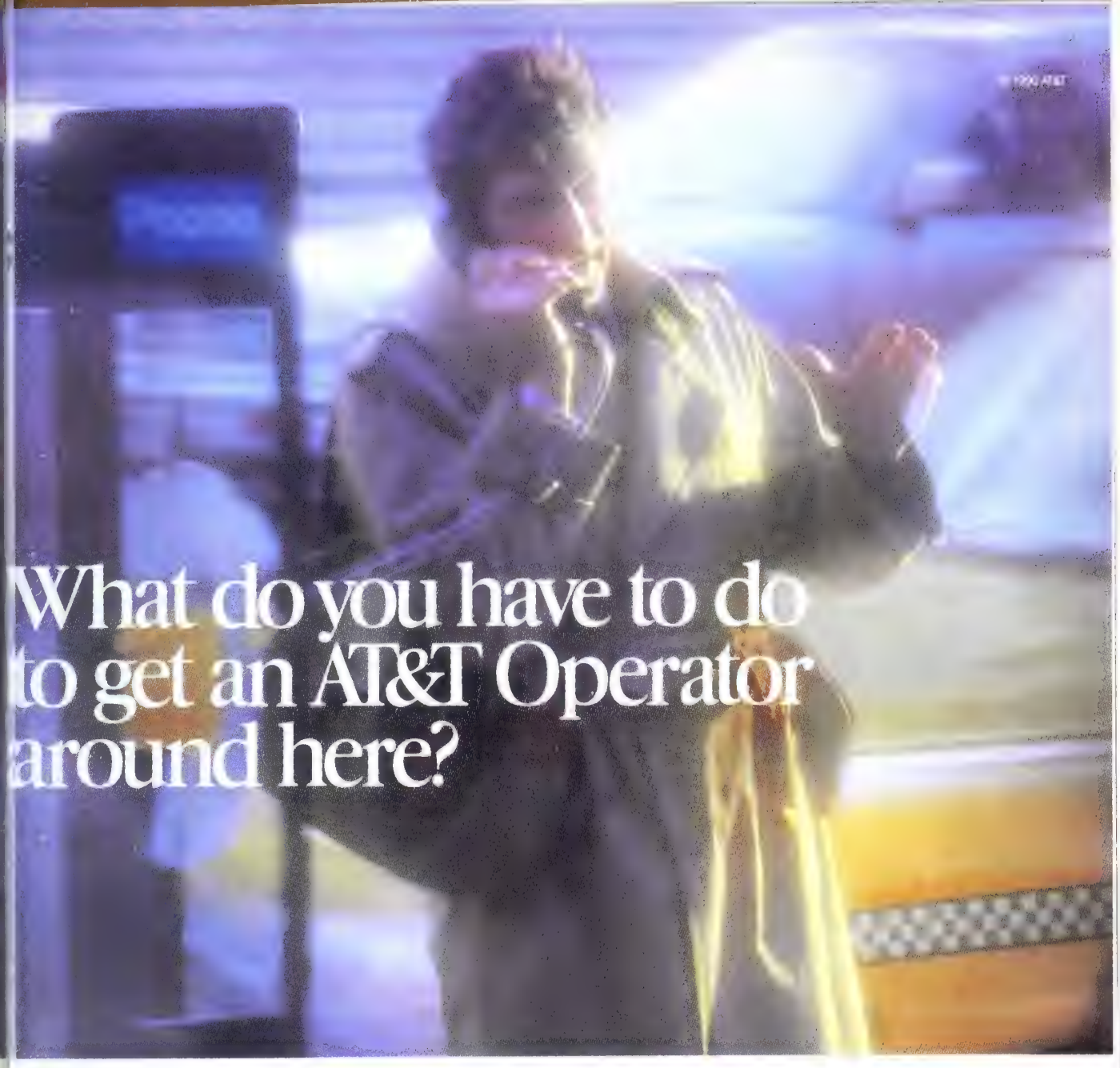
While DWG shareholders might well be enraged, they shouldn't be surprised. Through his stake, Posner essentially controls the company, which counts among its subsidiaries Arby's Inc. and RC Cola. Leonard Roberts, once DWG's vice-chairman, testified in a court hearing last September that Posner dominates board meetings, which are perfunctory affairs. He has collected $22 million in salaries and bonuses—nearly half of DWG's net earnings—since 1986 (chart). Last year DWG also paid $764,000 for Posner's yacht and planes. And the company pays $6.6 million yearly in rent to a private Posner company, $10 per square foot more than rates for comparable office space in Miami Beach.



ONE SHOT. So what are minority shareholders to do? Alas, not much. They can sue, of course. But Posner companies have weathered many attempts by shareholders to erect some checks and balances. DWG shareholders have one shot on Nov. 14, when U. S. District Judge Thomas D. Lambro will consider a settlement in a lengthy battle between DWG and Granada Investments, which sued last April, charging breach of fiduciary duties after Posner rejected a $22-a-share merger offer. The settlement, now awaiting court approval, would have the judge appoint three outside directors to DWG's board for five-year terms.

Will this rein in Posner? Part of the answer depends on whom the judge appoints. But Posner watchers say the settlement won't have much effect. And there's little in the laws of corporate governance to protect shareholders. As a Posner associate puts it: "Victor is within the law. If they don't like it, have them change the law."

That day may come, as increasingly powerful institutional investors press for reform of the proxy laws (BW–Mar. 19). Meantime, the DWG spectacle instructs investors in a hard lesson: Stock in companies dominated by a single shareholder often sells at a discount—for a reason. Minority investors had better like the direction that has been set; they can easily change neither the course nor the captain.



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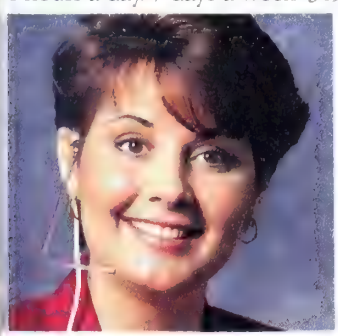

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CLEANING UP: THE MOTEL'S STRATEGY HAS BEEN TO REFURBISH OLD UNITS RATHER THAN BUILD

LA QUINTA PUTS UP A 'DO NOT DISTURB' SIGN

But its poison pill isn't scaring the Bass brothers or Ron Brierley

With its low rates and lean amenities, La Quinta Motor Inns Inc. typically caters to the budget-minded business traveler. But a turnaround at the San Antonio-based motel chain has lured some unusually well-heeled guests: the billionaire Bass brothers of Texas and New Zealand financier Sir Ronald A. Brierley.

La Quinta isn't barring the door just yet, but the 208-unit chain is certainly wary. It recently adopted a "poison pill." That move quickly drew the ire of an investor group led by Sid and Lee Bass, who usually take a backseat to brother Robert when it comes to dealmaking. With 14.8% of La Quinta's stock, the Bass group said in a filing with the Securities & Exchange Commission on Oct. 2 that it might consider a proxy fight to oust La Quinta's board or remove the poison pill. The move startled La Quinta Chairman Sam Barshop, who says: "I don't understand it."

'WRONG IDEA.' A week later, Industrial Equity (Pacific) Ltd., a unit of Brierley Investments Ltd., joined the chorus of disapproval and announced that it had raised its stake in La Quinta to 15%. IEP recently reached a standstill agreement with Cummins Engine Co. after a bitter legal battle in which Cummins charged IEP with seeking greenmail from several U. S. companies. IEP denied the charges and accused management of trying to entrench itself (BW—Mar. 19).

The Basses aren't talking publicly about their next move at La Quinta. But IEP disavows any hostile intent. "I think everybody's got the wrong idea," says Alfred D. Boyer, executive vice-president of an IEP unit in the U. S. "We certainly think management has done a great job." IEP is simply opposed to poison pills in principle, he says. It's not planning to seek a board seat or considering a hostile takeover. Nor is it launching any effort to rescind the shareholder-rights plan, Boyer says, although "we would support anybody else's initiative" to remove the poison pill. IEP, he adds, hasn't talked with the Bass group.

You can't blame these investors for trying to keep their options open. La Quinta's shares are now trading at 13, down from 15 when the Basses announced their investment in La Quinta in the spring of 1989. The stock is still below its 52-week high of nearly 18 and the low 20s that lodging analyst Michael G. Mueller of Montgomery Securities estimates as the replacement value of La Quinta's assets. But with takeover mania fading, La Quinta's stock is hardly cheap. It's trading at more than 32 times projected 1990 earnings.

> With nearly half of its properties in the energy belt, La Quinta is reaping benefits from rising oil prices

Still, it's not surprising that La Quinta has attracted some smart money. The company, with profits last year of $6 million on revenues of $206 million, is poised for a strong rebound. With nearly half of its properties in Texas and other energy belt states, La Quinta is benefiting from rising oil prices and their impact on the region's economy. "They've been taking a beating ever since 1985, and now it's their chance to be up on top," says Daniel W. Daniele, national director for economy lodging at accounting and consulting firm Laventhol & Horwath. La Quinta's net from operations will jump to nearly 40¢ a share this year from 13¢ in 1989, predicts analyst John J. Rohs of Wertheim Schroder & Co. And he figures earnings could soar to 65¢ in 1991.

PACKING 'EM IN. La Quinta's turnaround isn't just luck. It's seeing the payoff from its strategy of investing heavily to renovate existing units rather than building new ones. La Quinta has refurbished about 30 of its motels in the last two years and built only three. That approach, together with new marketing efforts aimed at tourists, helped boost the chain's occupancy rate slightly through the third quarter to 68.4%, despite average room rate hikes of 6%. That makes it one of the best performers in a gutted industry, where occupancy rates have been running at about 64%.

Better yet, La Quinta is positioned to take advantage of its competitors' woes. The company has $75 million in equity on hand through a partnership formed last year with AEW Partners, a Boston-based investment fund. The partnership has already bought two distressed motel properties and plans to buy and refurbish 50 more over the next few years.

La Quinta won't stray from its low-budget formula, though, even in flush times. It carefully selects sites close to major highways and centers of business activity. Although it offers same-day laundry service and free local phone calls, the motels don't boast such frills as room service or fancy banquet rooms.

The cut-rate approach is fine with La Quinta's wealthy investors. But with the stock price to match, they may have to check in for longer than they planned to make this investment pay off.

By Wendy Zellner in Da

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WHAT WILL POLAROID DO WITH ALL THAT MOOLA?

Customers, shareholders, and even competitors put in their 2¢ worth

On Oct. 12, a federal judge finally decided that Eastman Kodak Co. will have to pay $909.5 million to compensate Polaroid Corp. for violating its instant-photography patents. That's a handsome piece of change, though far less than the $13 billion Polaroid demanded after it won the trial that climaxed a 14-year court odyssey.

Still, it's by far the biggest patent-infringement award ever. In fact, it comes out to about 90% of Polaroid's total earnings for 1976 to 1985, the years when Kodak's transgression took place. Even after taxes, Polaroid should be left with $600 million or so.

Now, the question is: What will Polaroid Chairman I. MacAllister Booth do with all that moola? Like anyone else who comes into a fortune, Booth suddenly has more friends than he ever knew he had, each more than happy to chip in with some advice. Shareholders, including Polaroid workers who own stock through an employee stock ownership plan, are clamoring for a share in the reward.

Employee shareholders are probably overdue for one: Back in 1988, Shamrock Holdings Inc., the takeover vehicle run by Roy E. Disney and Stanley P. Gold, offered $45 a share for the company. Booth persuaded employees to give up 5% of their salaries to fund the ESOP and forced Shamrock to retreat. The problem is, Polaroid stock is now trading around 22.

But not everyone thinks Booth should spread the wealth among shareholders. In fact, there's quite a range of advice being offered by Polaroid's customers, shareholders, and competitors. So, to help Booth with his deliberations, BUSINESS WEEK gathered a sampling of suggestions:

"That's a lot of money. They should invest in improving the camera. The focusing sometimes is blurry, and when the light's not very good, the picture doesn't develop."

—Elisa Blair, Coral Cables (Fla.) medical secretary and generally happy Polaroid camera owner

"Polaroid's heavily dependent on consumer products, but the industrial side is a much better business. This is a good chance to invest money there, in marketing programs and more [product] development. That's the No. 1 priority. A one-time dividend? It would be nice for investors, but it's short-term. If the trade-off is long-term survival vs. happy investors in the short-term, a good management will go with the former."

—Israel Shaked, associate professor of finance at Boston University and former Polaroid consultant

"First, I'd fulfill my contractual obligation to Morgan bank. That's $220 million [of debt]. I'd use the balance either to reduce remaining debt or repurchase stock. Both of those are beneficial to the public shareholders as well as private holders and the ESOP. [Polaroid's choice] is a function of the marketplace. My perception is that, at the stock's current depressed level, a share repurchase might be the way to go."

—Michael W. Ellmann, analyst, Wertheim Schroder & Co.

"They aren't legally obligated to pay shareholders, but the inference is pretty strong that they'll do something. Texaco proved that paying out a special dividend can work. But because we have a lot of tax-exempt pension money, I'm less concerned with [how the payout is done] than actually doing something."

—Kathleen Wasescha, equity manager at Sun Bank Capital Management, a large shareholder

"There are some entitlements employees should receive. Because of the [patent infringement, our employees lost bonuses and contributions to their profit-sharing plan. Now, they should share in the reward. There are some things we're thinking about. A onetime payout [to employees] is on the list. My expectation is something will be worked out."

—William R. Graney, chairman, Polaroid's Employees' Committee

"You might give employees a little bonus, keep some for your coffers, then give the rest to shareowners. A self-tender avoids the double taxation and would get with a special dividend, so my gut says a self-tender is about $300 million."

—Brenda Lane, Morgan Stanley & Co. analyst

"If Polaroid was decent, it would turn the money back to Kodak. I don't feel that it's fair. Kodak is a giant, and it really gets dumped on a lot, but it's done more for the photo business than everyone else put together. I think they're penalizing Kodak for being the best. This is just a small company trying to make a bundle."

—Bill Holden, owner, MK Photo, East Hartford (Conn.) retailer

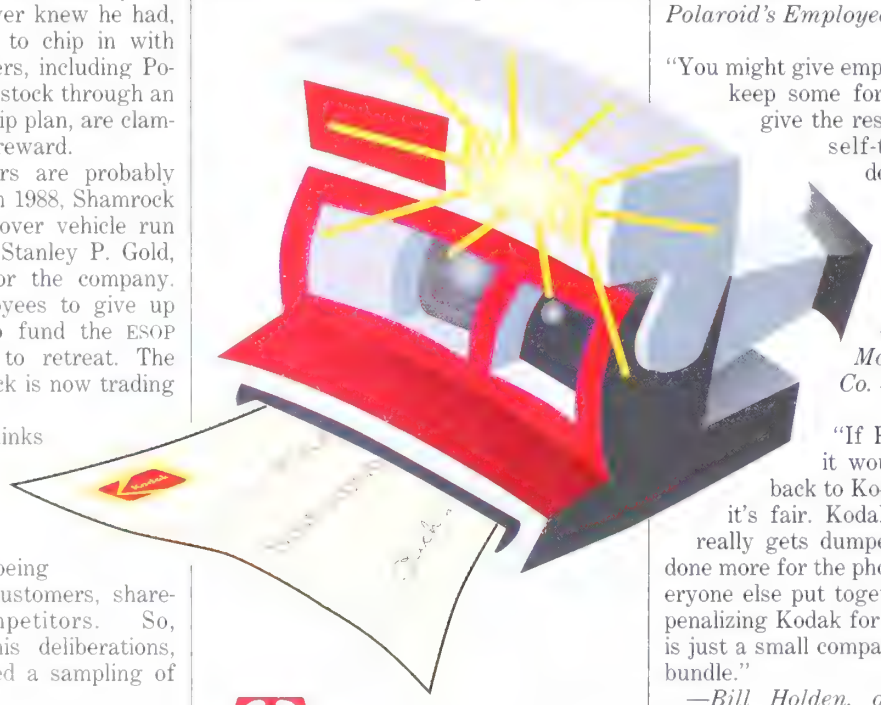
"Give it to charity. [Polaroid] really can't improve on what they've got."

—Robert Spellman, Lawrence (Mass.) Polaroid customer

"We wouldn't comment on that."

—Eastman Kodak Co.

By Keith H. Hammonds in Boston



The award, which comes to $600 million after taxes, equals 90% of Polaroid's earnings from 1976 to 1985

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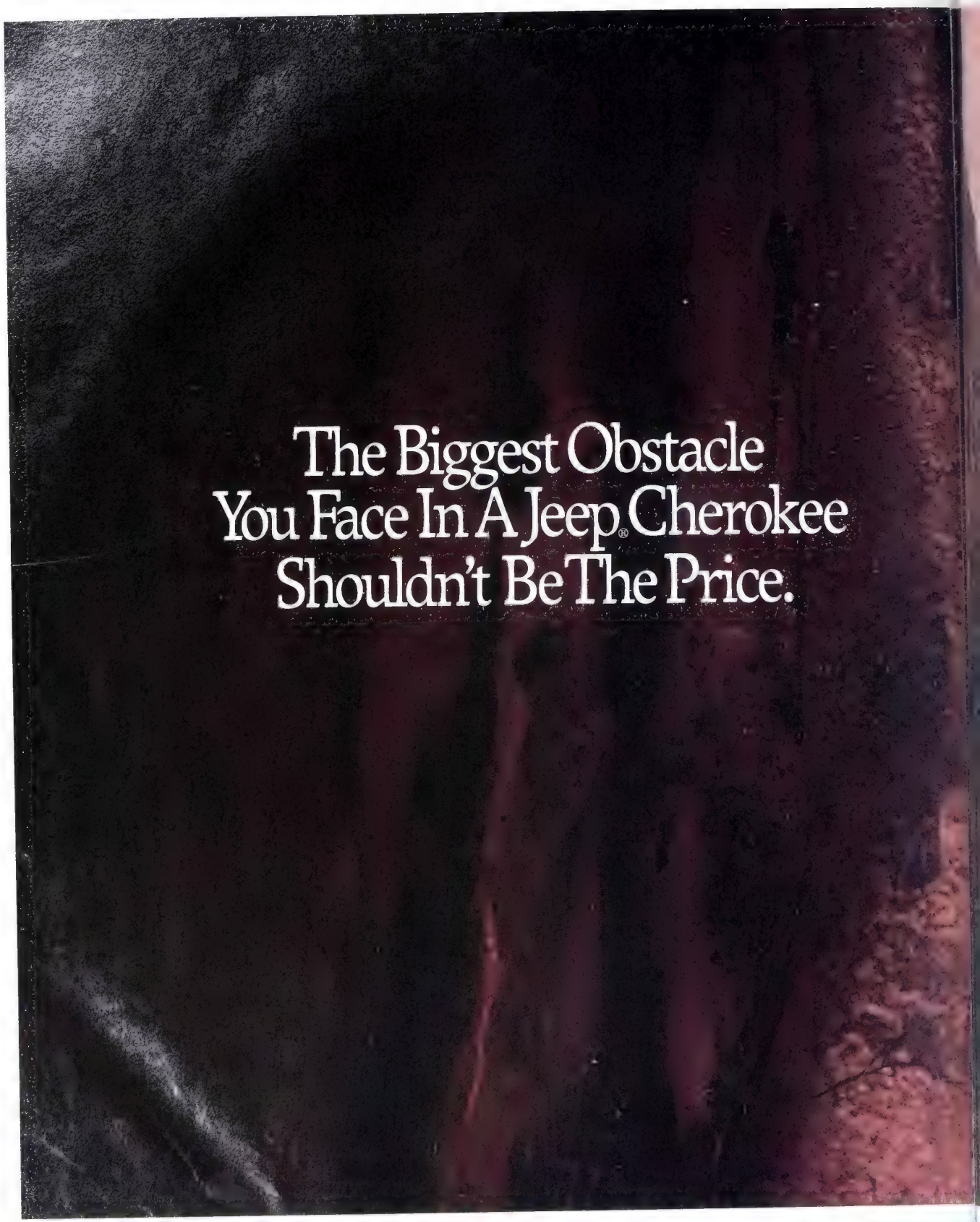
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EDITED BY HARRIS COLLINGWOOD

SIR JIMMY GOES FOR THE GOLD

▶ Is gold a better bet than timber these days? Sir James Goldsmith seems to think so. On Oct. 17, the financier announced a cozy trees-for-gold swap with his friend Sir Gordon White, head of the U. S. arm of Britain's Hanson. Hanson will pay $1.3 billion for Goldsmith's timberland company, Cavenham Forest Industries. In turn, Goldsmith will pay $1.3 billion for Hanson's 49% stake in U. S. gold producer Newmont Mining—if Newmont doesn't exercise its right of first refusal on the shares. Newmont isn't expected to block the deal.

White has been trying to unload the Newmont stake ever since Hanson acquired it as part of a 1989 takeover of Britain's Consolidated Gold Fields. By swapping into timber, he gains a higher immediate return and full control over his assets.

CHANGING OF THE GUARD AT BALLY

▶ Bally Manufacturing Chief Executive Robert Mullane, whose ambitious acquisitions saddled the company with $1.8 billion in debt, abruptly retired on Oct. 12. That same day, Bally suspended its 7.5¢-a-share quarterly dividend and announced it would miss an $18.4 million interest payment due in mid-October.

Financier Arthur Goldberg, who owns 5.4% of Bally, replaces Mullane. He promises a sweeping restructuring and is examining asset sales and a debt-for-equity swap.

ANDY YOUNG, RAINMAKER

▶ What do you do for an encore after landing the Olympics? Former Atlanta Mayor Andrew Young, chairman of the city's successful bid for the 1996 Summer Games, is going to take his chances in the business world. Law Group, a privately held Atlanta-based engineering and environmental consulting firm, announced on Oct. 16 that Young has been named chairman of its international unit. Young's outfit operates in 30 countries and has about $300 million a year in revenue.

Young's primary job: rainmaker. He has a stable of worldwide contacts dating from his days as an associate of Martin Luther King Jr. and U. N. ambassador. Young will also retain a yet-to-be-determined role in the Atlanta Committee for the Olympic Games.

BRITAIN'S STC MAY BE HEADED FOR THE BLOCK

▶ Another piece of Britain's high-tech industry may be up for auction. This time, it's STC, the big communications group that was spun out of the ITT empire in 1982. Two months ago, STC made itself vulnerable by agreeing to sell its International Computers subsidiary to Japan's Fujitsu for $1.45 billion.

When that deal is consummated on Nov. 30, STC will be left with about $1.1 billion in cash and its core communications operation. On Oct. 16, STC announced that the core might be sold, too. On the short list of possible buyers: Canada's Northern Telecom, which owns a 27% STC stake; France's Alcatel; and Germany's Siemens. Analysts say the company could fetch at least $3 billion.

STAMPING OUT DRUGS IN TEXAS

The Texas legislature last year passed a law levying a tax of $3.50 a gram for marijuana and $200 a gram for cocaine. Know-it-alls at the statehouse derided the "Al Capone law," but they may have laughed too soon. "We've collected over $40,000 in taxes from drug dealers who have been arrested without the appropriate tax stamps," says John Bender, deputy comptroller for the state's revenue department. Of course, the dealers a also in hot water for possession of controlled substances.

The state has raked in an additional $11,000 through sta sales, mostly to people who claim they're collectors. The ma juana stamp is certainly a collector's item: Printed on shi silver mylar, it shows the Grim Reaper with the word "drug above his head. The words "death" and "taxes" appear at t bottom. The cocaine stamp is similar, with a skull and cro bones as its central feature. Philately will never be the sar

LOTUS HAS THE EDGE IN COURT

▶ Lotus Development finally ended its three-year copyright battle with Paperback Software. Paperback agreed on Oct. 17 to pay $500,000 and to stop selling its V-P Planner spreadsheets. Last June, in a landmark decision for the software industry, a Boston judge ruled that V-P Plann infringed on Lotus copyrigh for its 1-2-3 package.

Paperback's concessi could be more important Borland International, faci its own court date in Bost with Lotus. Since Paperba agreed to withdraw its app and counterclaims, Lotus' v tory presents an imposi precedent for its claim th Borland's spreadsheet, Qu tro Pro, also infringes on 1- copyrights. Borland, for part, says it intends to defe itself "vigorously."

BURGER KING BURNS OFF THE FAT

▶ Bracing for hard times fast food, Burger King sho up its management structu on Oct. 15 and laid off 3 employees. The restructuri creates a separate division f the Miami-based fast fo chain's 875 domestic outle The unit will be more like franchisee than a conventi al subsidiary, paying re royalties, and marketing fe

The layoffs affect about jobs in Miami, with the rest the cuts, ranging from vi presidents to secretaries, regional offices. BK will clo seven of its field offices, p ing down to 12 nationwide.

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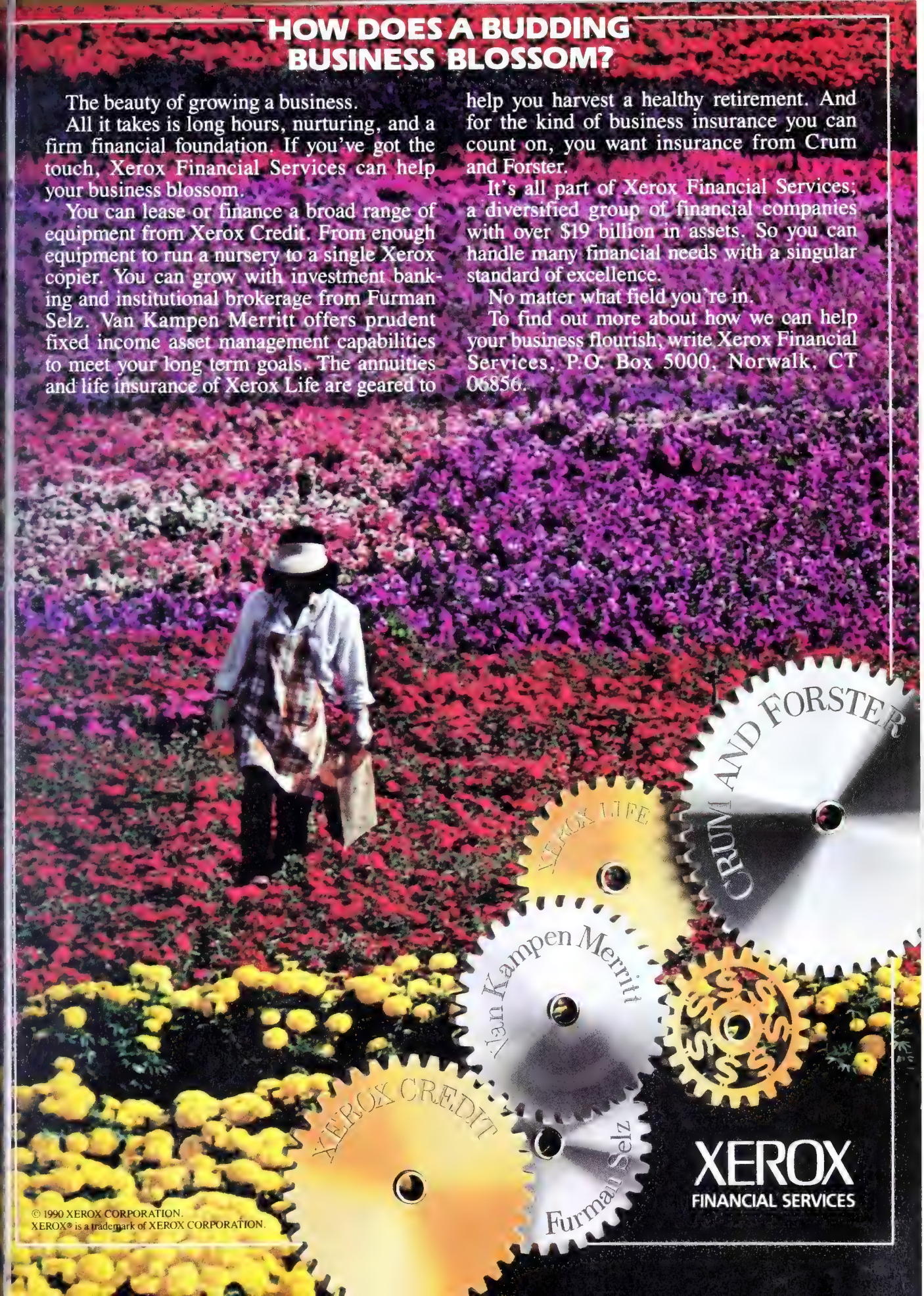

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EDITED BY STEPHEN H. WILDSTROM

USH ABANDONS A CRUSADE— O HE CAN SWING A TRADE DEAL

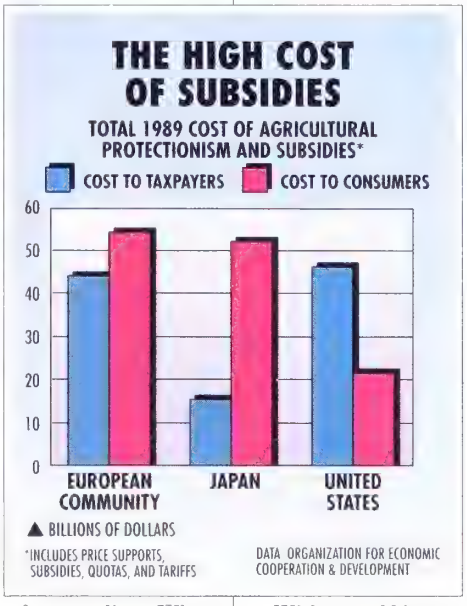
After four years of preaching to the unconverted, the U. S. is finally conceding the obvious: The rest of the industrial world just won't part with expensive farm sidies. On Oct. 15, the Bush Administration accelerated t is likely to be a long retreat from its free-market ideals oroposing to scale back farm subsidies rather than phase n out altogether. But by bowing to reality, the Administra- has raised the chances that it can st an agreement out of the current rnational trade talks.

he crusade against farm supports ned quixotic from the day in 1986 President Reagan proposed that e subsidies, which now total $250 on anually, be wiped out over 10 s. Reagan issued his challenge at a when television news shows were d with weeping farmers about to everything to foreclosure auctions.

E CLOUT. Since then, U. S. agricul- has rebounded smartly. But the ics haven't changed much—at home broad. Bush took his best shot at July's Houston economic summit. the other Group of Seven industrial ons, most of which offer fatter sub- s than the U. S. (chart), were un- ling. Europe's farmers have even e political clout than those in the ., and the European Community is together by delicate compromises on farm policy. When G-7 agreed merely to paper over the differences, the U. S. ative was doomed.

ush persisted for a time. But lacking Ronald Reagan's logical fervor, the Administration began to soften when it me clear that an absolutist stand threatened the success he larger trade talks known as the Uruguay Round. By y December, the 100-nation parley is scheduled to produce a new trade-liberalization agreement. Washington is pushing a broad agenda, from intellectual-property protection to new rules on investment and trade in services. U. S. Trade Representative Carla A. Hills insists that agricultural reform is the glue that will hold the entire package together. "Without it, most other countries will walk," she warns.

In its new proposal, the Administration calls for a 10-year, 90% cut in EC export subsidies on farm sales, a 75% cut in tariffs and quotas on agricultural imports, and a 75% cut in most farm-support payments. But this is still too much for EC pols, who view such deep cuts as suicidal.



SLIGHTED? Members of Congress aren't much more enthusiastic. They're besieged by U. S. manufacturers, who feel Hills is focusing on farm matters at their expense. They fear safeguards against dumping and other unfair trade practices will be swapped for concessions on agriculture and services. "We need to move American industry up the ladder," says Representative Sander M. Levin (D-Mich.), co-chairman of a Democratic trade task force. "A two-legged stool with just agriculture and services won't stand." Congress, which has agreed to whack farm spending by 25% to reduce the deficit, isn't eager to force more cuts on U. S. growers.

With a self-imposed December deadline looming, the pressure on bargainers is growing. Winning an agreement, says Agriculture Secretary Clayton Yeutter, "will probably take the intervention of the heads of state." But Bush, preoccupied by the Persian Gulf and clearly uninterested in economic policy even in the face of a recession, may not find time for a brisk dash into Europe's amber fields of grain.

By Paul Magnusson

ITAL WRAPUP

LITICS

op GOP strategists are urging Republican House candidates to go all t to cash in on anti-incumbent senti- nt. A memo from top party opera- es to Ed Rollins, director of the use GOP campaign committee, con- les that President Bush's role in dget talks has "given up the high ound" on taxes and left Republican ndidates vulnerable to charges that ey favor the rich. The recommended sponse: Treat every incumbent as art of the problem." The Republi- ns, thinking growing anger with ose now in office could help challeng- s, have targeted 39 swing districts now held by Democrats. "Even if the race isn't close," the party tells candidates, "run as if you have a poll that shows you with 49%."

CIVIL RIGHTS

Despite claims by backers that they may be able to override a veto, the Civil Rights Act of 1990 seems dead. The Senate approved the bill on Oct. 16 with a 62-34 vote, two short of the margin needed to overturn President Bush's certain veto. The White House trump card: If Bush gets the bill within 10 days of congressional adjournment, as seems likely, he can pocket-veto it and deny lawmakers a chance at an override.

ENVIRONMENT

Britain may send Prime Minister Margaret Thatcher. President François Mitterrand may represent France. But the U. S. delegation to the Second World Climate Conference in early November will be headed by John A. Knauss, Commerce Under Secretary for oceans and environment. The decision to send not even a Cabinet-rank official to the Geneva meeting is the latest Administration effort to downplay the issue of global warming. At the parley, the U. S. is expected to oppose British and German calls for a 25% cut in emissions of carbon dioxide and other "greenhouse gases."

WORKERS WANT THEIR PIECE OF EUROPE INC.

New EC rules are likely to raise labor standards and fatten wages across the Continent

Up to now, the idea of 1992 has been the brainchild of Europe's corporate and financial gurus eager to deregulate the Continent and design a single, efficient market. Europe's workers were barely in the equation, and their union leaders seemed quiescent as the new, sleek Europe took shape. But behind the scenes, labor was crafting its own agenda for Europewide benefits and standards, working to ensure that Europe Inc. not gain at their expense.

After months of lobbying the European Community in Brussels, a workers' agenda has emerged that could chart the blueprint for labor relations across Europe. Still awaiting final passage, the proposed rules touch on everything from maternity leave to benefits for temporary workers, standardizing labor practices from the boot of Italy to the tip of the British Isles (table). In 1992, paychecks could be fatter, and workers throughout Europe could even be taking seats at boardroom tables.

It's no surprise, then, that employers and some politicians are racing to stop the proposed rules in their tracks. Shaken by the scope of the agenda coming out of Brussels, companies fear that higher costs and loss of flexibility will compound problems as Europe slips into a recession. "It will be impossible to compete with American and Japanese firms," complains Zygmunt Tyszkiewicz, director of the Union of Industrial & Employers' Confederations of Europe.

The push to adopt the proposed labor agenda shows just how loath Europe's politicians are to dismantle their long-established social-welfare systems. Many are persuaded that the European economy will be stronger if workers are on the 1992 bandwagon, even if labor costs go up. The new rules also are intended to close the gap between poorer EC members such as Spain and Portugal, now positioned as cheap-labor havens, and the wealthier nations to the north. Indeed, they'll prevent what some are calling the "Portugalization of Europe."

LABOR'S BLUEPRINT FOR EUROPE 1992
PROPOSAL
STATUS
MATERNITY LEAVE
Adoption likely by Council of Ministers
NIGHT WORK
EC leaves arrangements to collective bargaining
PART-TIME WORK
Battle brewing, particularly costly for service-sector employers
WORKER PARTICIPATION
Standard in Germany but controversial elsewhere
MINIMUM WAGE
Small and medium companies protest, citing big job losses

The trade-off: Growth in the southern tier, after three years of booming investment, could slow substantially. "If you force Spain and Portugal to get to the level of Germany, it will give you reasons not to go there," admits a senior executive at a British industrial conglomerate.

HEAVY BLOW. Parts of the new package, officially called the Social Action Program, will pass handily because they mirror labor practices already in place in much of the EC. But the entire slate is by no means a done deal. It must still pass through the European Council of Ministers and the European Parliament, procedures that could take months—or even longer, considering the explosive issues.

The surprisingly strong proposals dealt Europe's employers a heavy blow. Under directives setting maximum work hours, yearly flying time for British Airways PLC's pilots, for example, will be cut 25%, to 750 hours. That means BA will have to hire as many as 750 pilots at a cost of more than $60 million a year. Says Robert Ayling, BA chief counsel: "We'll be even less competitive than we already are." Tesco PLC, a British supermarket chain with 382 stores, employs a primarily part-time, female work force. A combination of stepped-up part-time benefits and maternity leave would hike Tesco's payroll by 16%. And the mighty Deutsche Bank is horrified that it might have to give fringe benefits to workers who log fewer than 13 hours a week. "We'd simply lay off all our part-timers who put in less than the minimum," says a Deutsche Bank representative in Frankfurt.

In the coming months, the EC could drop yet another bombshell on business by setting a hefty European minimum wage. Minimum-wage workers are likely to receive at least two-thirds of an EC member's average manufacturing wage. Compliance will be left up to each individual country. So in Germany, for example, inspectors could soon be scrutinizing construction sites in cities like Bonn, where east German workers take home a mere $4 an hour, a great deal below the union wage rate.

ardest hit by these changes would small and medium-size companies . mushroomed as services boomed in late 1980s. Everything from ad agen- to fast-food chains to courier ser- s could be squeezed, and in turn ld jeopardize employment growth in ope. Reductions in job growth would aggravate the problem of youth un- loyment, which is now running at % in the EC.

erhaps the EC's touchiest proposal is that could require worker represen- ves on boards of directors of compa- with more than 1,000 employees. le union leaders feel it's more impor- than ever to have a say in corporate sions that affect workers across Eu- e. German companies already have kers on their boards, but most Euro- n managers resist giving unions such er. And it's anathema to U. S. execu- s, who fear that workers back home ld begin to demand similar access to panies' closely guarded strategic ming. Says Peter Jacobi, president of i Strauss & Co. Europe: "In the S., there's more of an adversarial tionship between management and or."

KING AMERICANS. American compa- with big stakes in Europe are balk- at other restrictions as well. Cater- ar Overseas has 9,000 employees in ain, Belgium, and France, each of ch offers different ways to compen- for overtime work. British workers, example, can now opt for overtime or compensatory time off. Under the rules, they'll have to take the time Says David Henson, a Caterpillar kesman: "It's just too rigid."

few big American names have al- dy pleaded their case before the EC. d of Europe, General Motors, and v Chemical got wind of the proposals he spring and mobilized their EC lob- sts, armed with the latest research on cking conditions, to turn things und. Led by the auto companies, S. businesses managed to win conces- ns on night work. The Americans also e Britain's Prime Minister Margaret tcher on their side. A staunch oppo- t of EC power, Thatcher is vowing to ttle the labor program.

lowever the politics shake out in ssels, Europe's leaders will be facing decisions about how the riches that v out of 1992 will be divvied up. If cutives were hoping that the moves ard a single market would pare down rope's social programs to resemble bare-bones American system, they l be disappointed. In the tradition of rope's social democracies, workers almost certain to get a hefty share.

By Jonathan Kapstein in Brussels, Blan- Riemer in Paris, and Richard A. Mel- r in London, with bureau reports

JAPAN'S KINGMAKER EMERGES FROM THE SHADOWS

Shin Kanemaru isn't content to simply pull strings at home

TERRY MIURA

One of Japan's most powerful men is on the move. After years of quietly exerting power from back rooms, 76-year-old Liberal Democratic Party elder Shin Kanemaru in late September met with North Korean leader Kim Il Sung in a headline-grabbing bid to clear the way for official talks with the isolated Communist leadership. His visit not only angered South Korea but also upstaged Japanese Prime Minister Toshiki Kaifu and defied the entire Foreign Affairs Ministry.

Kanemaru's new assertiveness has made him Japan's most controversial politician, and one who is playing an increasingly important role in domestic as well as foreign policy. Nicknamed "the Don," Kanemaru has emerged as the unrivaled kingmaker of Japanese politics even though he holds no official position in the Japanese cabinet or government. His every statement is combed for hints of policy shifts and leadership changes.

'I'M NO LEADER.' Kanemaru's power may soon be tested now that Kaifu is slipping. Polls show the Prime Minister's ratings are down sharply, partly because of his waffling response to the Persian Gulf crisis. His term does not expire until the end of October, 1991, but he may have to resign early. If he does, all eyes will be on Kanemaru to pick his successor. "I'm no leader," Kanemaru told BUSINESS WEEK in a rare interview in his bustling campaign office in Yamanashi

prefecture, 83 miles west of Tokyo. "I sweat for other people. That's my political philosophy."

Kanemaru likes to portray himself as one of Washington's best friends. "Japan would not exist without America," he says, noting that he keeps in close touch with U.S. Ambassador Michael Armacost. Although the Structural Impediments Initiative agreed to by the U.S. and Japan earlier this year will have little immediate impact, it was a top U.S. priority. By squashing anti-Kaifu forces with carefully timed comments, Kanemaru played a role in getting the agreement through.

He was also one of the first to go public in saying Japan should send its Self Defense Force to the gulf in noncombat positions. On Oct. 16, the Diet began debating an LDP-proposed bill to create a Peace Cooperation Corps to join U.N.-sponsored operations in the gulf, including unarmed military forces. The bill is hotly contested by opposition parties, but Kanemaru says he expects an agreement, such as a limit of two to three years, to come through soon. "It will pass," he promises. "Politics equals compromise."

Kanemaru's power base is multilayered. One is his command of political campaign funds, particularly in the construction industry. As boss of the *zoku*, or tribe, of Diet members who depend on contributions from the construction industry, a big chunk of the $3.5 trillion that Tokyo promised Washington it will pump into public works will likely find its way into his district. Even an avowed union man, a Yamanashi bus driver who votes Socialist, shakes his head and says: "He's so powerful, I can't help but respect him." Kanemaru also dominates lucrative *zoku* in the telecommunications and defense fields. One reason Kanemaru may have the confidence to emerge from the shadows is that he was a major political beneficiary of the Recruit Co. scandal, which ruined former Prime Minister Yasuhiro Nakasone. Nakasone had traditionally rivaled Kanemaru for control of telecommunications campaign funds.

THE FIXER. His command of Japan's "money politics" has helped Kanemaru to emerge as the de facto chairman of the largest faction within the LDP, which is still named after former Prime Minister Noboru Takeshita. No one can dream of becoming Prime Minister without the support of this 107-member faction. At other points in his 32 years in the Diet's Lower House, Kanemaru has been deputy prime minister, served in five different ministries and agencies, and wielded power as the LDP's Secretary General. His influence even extends to the Japan Socialist Party. All these tools help Kanemaru earn his reputation as a fixer.

Eldest son of a rural *sake* brewer, Kanemaru is more at home with pork barrel politicking than diplomatic finesse. Foreign Ministry bureaucrats threw fits after his North Korean trip. Afterward, he had to fly to South Korea to explain. Just three weeks earlier, he tried to forge ties between China and Taiwan by visiting Beijing, even though he has been staunchly in the Taiwan camp. Chinese leader Deng Xiaoping shunned him, despite a gift of wine from a Kanemaru family vineyard. "He's just making a fool of himself," scoffs a senior Foreign Ministry official in Tokyo.

Kanemaru shrugs off all critics. His aim in Korea, he stresses, was to open a channel of communication and let the government handle the details. Despite any bumblings, he's highly regarded abroad as the brawn, if not the brains, behind Japanese politics. Sources close to Kanemaru say Mikhail Gorbachev has asked him to visit Moscow before Gorbachev's trip to Japan next April.

No one would argue that Kanemaru singlehandedly runs Japan. Other party elders are jumping into jets as well. Struggles among LDP factions, once relegated to smoke-filled back rooms, are spilling all over the map. Shintaro Abe, former Foreign Minister, had planned a trip to Moscow this month before falling ill. Michio Watanabe, leader of another LDP faction, has been airport-hopping in Asia. As more politicians become self-appointed ambassadors, "the U.S. will have to get used to more ranging behavior of Japanese foreign policymaking," warns Ikuo Kabashima of Tsukuba University.

These trips, and the subsequent ferment in Japan's foreign policy, are related to the struggle to succeed Kaifu as Prime Minister. As that jockeying unfolds, Kanemaru is still the man to watch. "The key to his strength is that he is not trying to become Prime Minister," says Kazuo Aichi, director-general of the LDP's international bureau. Kanemaru jokes that the reason he does not take the highest spot is that, "I'm not smart enough." But some Japanese say he prefers to be a *kuromaku*, a reference to the string-pullers in Japanese puppetry who operate from behind dark curtains.

Another reason Kanemaru will probably never seize the Prime Minister's job is his poor health. He suffers from diabetes, and much of his stomach was removed for an ulcer that he once publicly speculated was eventually cancer. But he still has a deep, gravelly voice and bulldog physique along with droopy eyes that give him a mysterious expression to match his reputation for sparse, cryptic comments.

Nor does Kanemaru want to allow Japan's other political elders to seize the Prime Minister's job. It appears he has set the stage for putting his own protégé in place as Prime Minister. The likely candidate is LDP Secretary General Ichiro Ozawa, 47, who has been a faithful workhorse for Kanemaru and key intermediary for manipulating Kaifu. Kanemaru says that Ozawa has the youth and energy to lead Japan. But if Ozawa gets the job, Kanemaru will likely be remembered as a master puppeteer.

By Karen Lowry Miller in Tokyo

WHERE KANEMARU IS THROWING HIS WEIGHT AROUND

CHINA
A longtime friend of Taiwan, he is trying to engineer talks between archenemies Taipei and Beijing

NORTH KOREA
Wants Japan to normalize relations with North Korea and pay reparations, estimated at $5 billion

PERSIAN GULF
Advocates sending unarmed Japanese military force

SOVIET UNION
Hopes to smooth relations with the Soviets by softening Japanese claims to four islands taken by the Soviets at the end of World War II

U.S.
Spurs Japan to accept Structural Impediments Initiative

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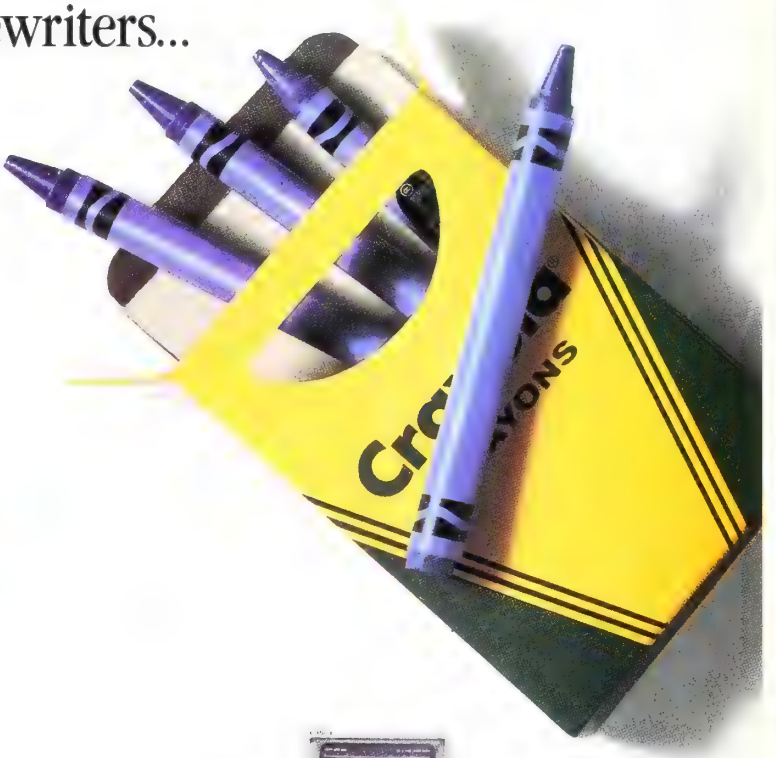

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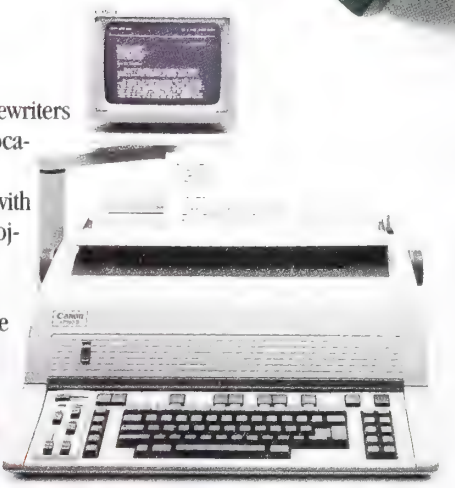

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EDITED BY JOHN PEARSON

VRAPPING UP A START TREATY VHILE THE SOVIET CENTER STILL HOLDS

At Marshall, Tex., and Sari Ozek, Kazakhstan, the U. S. and Soviet Union are scrapping 2,700 missiles under the 1987 agreement between the superpowers to remove dium-range nuclear weapons from Europe. Now, the end of cold war and the squeeze on defense spending in both ntries are paving the way for a Strategic Arms Reduction aty (START) to shrink the huge arsenals of long-range nuclear weapons that they aim at each other. After meeting in New k this month with Foreign Minister Eduard A. Shevardlze, Secretary of State James A. Baker III said: "We think ossible to have a START agreement by the end of the year." sidents George Bush and Mikhail Gorbachev could sign it a December summit in Moscow.

t's important that they wrap up RT soon. The U. S. and the Soviets e by far the biggest arsenals of sosticated nuclear firepower, although re's a danger that nuclear weapons ld be spreading to regional powers h as Iraq. Now, Soviet political instaty, raising doubts about whose finger ght eventually be on the nuclear trig-, makes it all the more urgent to erse the arms race. But the increas- fragmentation of political power in Soviet Union could sidetrack the neiations. Some republics, such as the Ukraine, Kazakhstan, l Byelorussia, may declare themselves nuclear-free zones. t individual republics may also demand an increasingly ac- role in foreign policy, including arms negotiations, warns ri Y. Pinchukov, an arms-control expert at Moscow's Insti- e of World Economy & International Relations. "It will take ot of time to educate the foreign ministry of the Russian or ier republics on this issue," Pinchukov says.

That prospect could be averted by an early START accord, eady mostly completed in Geneva talks that began in 1982. would cut strategic arsenals by 15% to 20%, still leaving h side with 8,000 to 10,000 nuclear warheads. But the key to the deal, Moscow's offer to scrap half of its 308 SS-18 missiles, is a crucial step toward stabilizing the nuclear balance. By deploying the huge SS-18s, each with 10 warheads, Moscow stirred U. S. fears of a quick strike. Now, the Soviets "realize that by building up new forces, they undermined their security by provoking buildups on our side," says Matthew Bunn, associate director of Washington's Arms Control Assn.

Spending cuts have helped defuse another problem—how to monitor limits on sea-launched cruise missiles, since the U. S. Navy insists that close inspection of ships would be unacceptable. START sidesteps the need to verify compliance by simply allowing more of the weapons—880 on each side—than either intends to build. The U. S. had planned to deploy 758 cruise missiles, but for lack of money may build only 450.

DISMANTLED MEDIUM-RANGE MISSILES: STRATEGIC ARMS MAY BE NEXT

FINAL GAP. The biggest remaining snag is the Soviets' concern that the U. S. not evade START limits by supplying arms to allies. The U. S. is supplying Trident missiles for four submarines to the British and won't agree to a ban on future strategic arms deals with the Brits. Still, Baker said he and Shevardnadze made "good progress" on the issue, and most observers say it shouldn't prevent a treaty because Britain's nuclear forces are small and aren't expected to grow much.

If Bush and Gorbachev sign a pact soon, both sides agree that talks on START II should follow, probably aimed at cutting nuclear warheads to 3,000 on each side. The economic chaos and dispersion of political power in the Soviet Union do not directly affect the arms pact, because most of the strategic weapons are under tight control in the Russian Republic. But in the next round, the U. S. could find itself negotiating directly or indirectly not only with Moscow but with Russian President Boris Yeltsin as well.

By Amy Borrus in Washington and Rose Brady in Moscow, with Mark Maremont in London and Ruth Pearson at the U. N.

OBAL WRAPUP

OVIET UNION

Shying away once again from radical market reforms, Soviet President Mikhail Gorbachev unveiled a ague, watered-down economic plan on ct. 16 that only sets the stage for ore battles between the 15 Soviet reublics and the central government. orbachev's plan is a diluted version of radical 500-day reform proposal couthored by Stanislav Shatalin and Grory A. Yavlinsky, economic advisers Gorbachev and Russian President oris Yeltsin, respectively.

Gorbachev's blueprint calls for privazing state industry, liberalizing prices radually, and introducing more private farming, but it lays out no clear timetable. And it falls short of vesting significant power in the republics—most of which have declared political sovereignty and asserted control over their own resources. Instead, the central government would retain wide economic powers, from setting the exchange rate of the ruble to regulating most exports.

The Soviet Parliament seems likely to approve Gorbachev's plan. But political battles started only hours after top officials received copies. Yeltsin called the plan a "catastrophe," saying it would fail within six months. And Yavlinsky has threatened to resign, fearing the plan was so incompatible with the one Yeltsin intends to launch on Nov. 1 that only chaos would result.

For the restless republics, pending government changes could provide new powers. Gorbachev proposes to expand their role in central decision-making by giving them a greater voice in two new political bodies. The result may be a government shake-up by yearend. Some Kremlin-watchers predict that Gorbachev will oust unpopular Prime Minister Nikolai I. Ryzhkov, eliminate most ministerial posts, and create a coalition government with republican leaders aimed at setting economic reforms in motion. That could lead to the creation of a market economy, though later rather than sooner.

PLANET SAMMA LIAISON

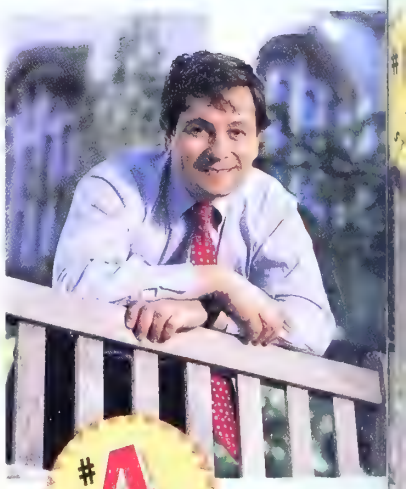
THE BEST B SCHOOLS

BIG CHANGES SINCE 1988 HAVE MADE A LOT OF GRADUATES HAPPIER

My boy, he ain't no dummy
You can see why he's the boss.
Without Don Jacobs at the helm
We'd all be at a loss

Not many B-school deans become the hero of a rap song. But Donald P. Jacobs, head of Northwestern University's school of management, is no ordinary dean. When students staged their annual follies show this year, one admirer rapped the tribute while jiving around a life-size cardboard cutout of "Funky Don," replete with dark shades and a black leather tam-o'-shanter. The crowd wildly applauded the goofy skit.

If that sounds like a tough act for Jacobs to follow, not to worry. He has led Northwestern's J. L. Kellogg Graduate School of Management in Evanston, Ill., to the



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#2 PENNSYLVANIA

THOMAS P. GERRITY
OF PENN'S
WHARTON SCHOOL

#3 HARVARD

JOHN H. McARTHUR
OF HARVARD
UNIVERSITY

#5 STANFORD

A. MICHAEL SPENCE
OF STANFORD
UNIVERSITY

#6 DARTMOUTH

EDWARD A. FOX
OF DARTMOUTH'S
AMOS TUCK SCHOOL

top of BUSINESS WEEK's B-school survey for the second time in a row. Kellogg held on to the No. 1 spot it captured two years ago by retaining the school's favor among corporate recruiters and by gaining high grades from its graduates.

A familiar cast of characters is right behind Northwestern in the top tier: the University of Pennsylvania's Wharton School, Harvard, Chicago, Stanford, and Dartmouth's Amos Tuck School. But there were many surprises as well. Yale University's School of Organization & Management, upset by student unrest in recent years, disappeared from the Top 20 listing because of extremely low ratings from graduates. The University of Texas at Austin elbowed into the top group largely because of a major overhaul of the MBA program sparked by a student uproar two years ago. The University of Chicago's B-school, criticized in 1988 because it failed to address leadership skills, zoomed to No. 4 from No. 11 by earning the top grade from this year's graduates (table).

ELITE CORPS. As in the first survey, BUSINESS WEEK rankings are premised on a consumer's approach to a B-school education. Rather than simply asking the deans to rate all the schools, BUSINESS WEEK sent questionnaires to some 6,000 of this year's graduates of 3 prominent business schools and to 32 companies that actively recruit at th top schools. A total of 3,664 graduate and 149 companies replied. The gradu ates, who judged only their own school ranked such qualities as teaching. Th recruiters rated such things as studer skills. The responses became a compos ite for the BUSINESS WEEK rankings. Th coverage of schools, students, and r cruiters was expanded this year as pa of refinements designed to make th rankings fairer (page 66).

The graduates and the corporation that recruit them do not share the sam

A REPORT CARD ON THE TOP 20

What do the best B-schools have to offer? Here's a concise guide, the result of BUSINESS WEEK's newest ranking. To produce the list, we asked for the opinions of 5,885 recent graduates of 32 top schools and 322 companies that actively recruit MBAs. Some 3,664 MBAs and 149 companies responded. We also asked the top schools to provide many numbers.

Besides the ranking, the table compares such things as size, costs, and postgraduate indicators. You'll find, for example, that Harvard, with 62, is far in front of the pack in producing MBA recipients to run BUSINESS WEEK 1000 companies. Yet that number is down from 76 in 1988. Stanford, Wharton, MIT, Chicago, Carnegie Mellon, Duke, and Indiana are producing growing numbers of Top 1000 CEOs.

The figures for starting pay differ from those of placement offices because they include such onetime incentives as sign-on bonuses and moving expenses. The perks have become such a key part of recruiting that applicants can't get a true picture of their earnings potential without them. At Northwestern, 53% of the class of 1990 got sign-on bonuses that ranged from $2,000 to $15,000.

The report-card grades measure the schools by specific categories in the graduate and recruiter surveys. The top 20% of the schools in each category got As. The next 25% got Bs, while the next 30% got Cs. The remaining schools received Ds. For further details on the ranking process, see page 66.

BW rank	School	BW 1988 rank	Corporate poll rank	Graduates' poll rank	Full-time enrollment	Annual tuition	App Acc
1	**NORTHWESTERN** (Kellogg) Evanston, Ill.	1	2	7	1,610	$16,650	
2	**PENNSYLVANIA** (Wharton) Philadelphia	4	1	10	1,575	16,500	
3	**HARVARD** Boston	2	3	9	1,600	16,400	
4	**CHICAGO** Chicago	11	5	1	1,100	16,670	
5	**STANFORD** Stanford, Calif.	9	7	3	670	14,094	
6	**DARTMOUTH** (Amos Tuck) Hanover, N.H.	3	8	5	335	16,500	
7	**MICHIGAN** Ann Arbor	6	4	14	840	15,836	
8	**COLUMBIA** New York	14	6	11	1,243	16,950	
9	**CARNEGIE MELLON** Pittsburgh	13	11	4	356	16,580	
10	**UCLA** (Anderson) Los Angeles	16	16	2	750	8,510	
11	**MIT** (Sloan) Cambridge, Mass.	15	10	13	490	17,250	
12	**NORTH CAROLINA** Chapel Hill	8	14	6	415	6,153	
13	**DUKE** (Fuqua) Durham, N.C.	10	13	12	545	16,200	
14	**VIRGINIA** (Darden) Charlottesville	7	12	16	490	11,700	
15	**INDIANA** Bloomington	12	9	23	603	8,175	
16	**CORNELL** (Johnson) Ithaca, N.Y.	5	19	15	525	16,100	
17	**NYU** (Stern) New York	18	20	18	1,018	15,490	
18	**TEXAS** Austin	None	28	8	1,185	4,277	
19	**CALIFORNIA** (Haas) Berkeley	17	23	19	507	7,846	
20	**ROCHESTER** (Simon) Rochester, N.Y.	20	27	17	390	14,700	

DATA: BW (RESEARCH BY CELESTE WHITTAKER, JUDI CROWE, DAVID LEONHARDT) *Est

ons. The latest generation of MBAs ded top honors to Chicago, UCLA, 'ord, Carnegie Mellon, and Dart- h. The favorite hunting grounds of corporations, on the other hand, Wharton, Northwestern, Harvard, igan, and Chicago.

RIENCE FIRST. No matter how you it, these are all highly regarded ıess schools—the standouts from 'oughly 700 institutions that grind 57,000 MBAs each year. The Top 20 uate an elite corps of future busi- leaders. Even though enrollment at schools is rising, gaining entry is ng tougher. Cornell University's B- ol now accepts only 16% of its appli- ; compared with 27% two years ago. Students usually arrive at these top schools with four to five years of work experience. The newest students at Northwestern left jobs paying about $32,000 a year on average.

For most, the sacrifice is rewarded the day they're handed their diplomas. Graduates of the Top 20 schools landed jobs with average starting pay and bonuses of $59,705 in 1990—up 21% from 1988. Despite a dropoff in lucrative Wall Street jobs this year, nearly one in five Harvard University B-school graduates landed six-figure compensation packages. On average, Stanford University MBAs pulled down the most—$79,135—while Texas MBAs got the least—$43,985. But BUSINESS WEEK discovered that two decades after women began entering B-schools in force, male MBAs took home significantly more money than their female counterparts (page 57).

The two years between BUSINESS WEEK's surveys saw sweeping changes in business schools. Many took to heart the stinging criticism that surfaced in 1988 over the uneven quality of teaching at world-class institutions. New York University's Leonard N. Stern School of Business achieved an academic miracle this year when 70% of its faculty passed a promotion-and-tenure policy that places as much importance on teaching as it does on scholarly research (page 62). Just eight years ago, NYU professors were only one vote shy of making re-

e ay	BW 1000 CEOs	Highlights	Grad skills graded by recruiters			Schools graded by 1990 grads		
			Analysts	Teamplayers	Global view	Teaching	Curriculum	Placement
0	6	Recruiters rate grads top in interpersonal skills, first in marketing, and third in general management	B	A	B	B	B	A
5	17	Over 20% of recruiters—largest single percentage—say it's the best B-school, unbeatable in finance	A	A	A	C	B	A
0	62	One in five grads start jobs with six-figure pay; students competitive but alumni network strongest	B	B	A	B	A	B
0	11	Grads rave about new leadership program; praise leading-edge faculty and topical course work	A	C	A	B	A	A
5	25	Least competitive campus culture of elite schools; grads award classmates highest marks for smarts and diversity	B	B	A	A	A	A
5	5	Grads rate profs top in dedication to teaching and accessibility outside class; small classes help	C	C	B	A	A	B
0	5	Leads schools in cultural diversity, with highest minority enrollment (25%); among recruiters' favorite places	A	A	B	C	C	B
5	5	New dean bringing fresh ideas to an old program; campaigning for a new home to build community spirit	B	B	A	B	B	B
0	1	Recruiters praise analytic skills of grads; rate it second after Purdue in operations; the first year is grueling	A	D	C	B	C	A
5	1	Was your MBA worth its cost? Grads were most satisfied here; among top 10 in general mgt. and marketing	C	B	B	B	A	A
5	11	Recruiters rate grads best in analytical skills; grads like faculty for being on the leading edge of their fields	A	C	A	C	C	B
15	0	After Chicago, grads say school most fulfills their expectations; they praise teaching quality and the low tuition	D	B	C	A	A	C
20	1	Recruiters view grads as team players; rates highly in marketing, but mostly average in student satisfaction	C	B	C	C	C	B
10	2	A miniversion of Harvard, with a case study, general mgt. approach; work load toughest of all schools	C	B	B	A	B	C
10	5	One of only four schools rated by recruiters in top 10 in every category from accounting to marketing	C	A	C	D	C	C
30	5	Slips from top five ranking mainly due to less satisfied grads; still strong program, blending theory and practice	C	B	C	A	B	D
00	8	New B-school home to open in 1992 will herald big changes; ranked highly in finance and accounting	C	D	B	C	B	C
35	0	Best bargain as a newcomer to Top 20; student uproar led to program overhaul and applause from grads	C	D	C	B	B	B
40	2	Promotes interdisciplinary approach with lots of group work; grads decry overcrowded and outdated facilities	B	C	B	C	C	C
10	0	Renowned in economics & finance; grads rate faculty highly for fresh insights; recruiters less enthusiastic	B	C	C	C	C	B

search the sole criterion for faculty advancement.

Other schools significantly revamped their curriculums, adding innovative programs to instill leadership skills. The University of Virginia now begins its second year with what may well be the most ambitious course available at any business school. The year-long class in leadership begins with a one-week, executive-style seminar that includes a wilderness experience designed to enhance teamwork and confidence. In early January, the entire class of 240 students will spend a week in Europe working on six different consulting projects for multinational companies, including British Petroleum Co. and PepsiCo Inc. Before graduation, students will present their conclusions to top managers of those same companies.

HELPING HANDS: CHICAGO'S REQUIRED, NONCREDIT LEADERSHIP-AND-TEAMWORK COURSES HAVE EARNED RAVES

A STEP UP. Innovations such as these have helped make the class of 1990 a generally happy lot. When asked to rank the return on time and money invested in their degree from 0% to 100%, the responses average out to 89%—up a bit from 85% two years ago. But many graduates still complain that faculty members are more interested in research and outside consulting than in classroom teaching. More MBAs also seem less satisfied with the jobs being offered through school placement offices. The main reason: Today's B-school students are older and more experienced than their predecessors and unwilling to take the entry-level jobs traditionally rounded up by placement offices.

Dean Jacobs didn't allow Northwestern's No. 1 ranking in 1988 to induce complacency. After all, he had served as dean for 13 years before gaining the accolade. Jacobs helped the school make the long climb by doing what every dean tries to do: raise money and lure top faculty and staff. But the centerpiece of his strategy was distinctive at the time. As a bridge to the real world, Jacobs built one of the nation's largest and most modern executive education centers. The $15 million James L. Allen Center, on the shores of Lake Michigan, hosted more than 3,200 executives last year. The result: increased visibility and credibility in the corporate world.

Jacobs didn't slight his students, either. It's no accident that the recruiters believe Kellogg MBAs demonstrate the best interpersonal skills and show the greatest ability to work as team players. Instead of relying on test scores, past grades, and written essays, Jacobs made Kellogg the first and only business school to interview all of its applicants. That gave the school an early edge in attracting articulate students who could work well together.

"It goes back to the input," says Jacobs. "We look for active, bright, caring people. We don't have loners with sharp elbows for students. It's almost counter to what had been produced. And they're being trained by a first-class faculty."

An unassuming academic, Jacobs helps set the mood. On Thanksgiving Day, he skips the traditional family dinner in favor of one with MBA students who can't return home for the holiday personally carving and serving the tur key. In the early days, Jacobs brough over his own pots, pans, and dishes fo the event.

TURBOS AND POETS. He has also mad group work an obsession. Roughly thre of every four classes require significan teamwork. "Turbos"—students wh boast strong math skills—and "poets"— those who were liberal arts majors a undergrads—routinely come together i study groups to tackle business prob lems. It's not always easy. Alberto Go mez, a second-year student from Mexico recalls a corporate-strategy class i which his five-person group was dom nated by a student wh cracked one joke afte another. One shy Japa nese member refused t say much of anything A woman with a cor sulting backgroun shouldered much of th workload. "I though that the group wa doomed," he says. "W finally had a two-hou session where we got out into the open. Afte the talk, you couldn shut this Japanese gu up. We learned to wor as a team."

All this is not to sa that Kellogg is MBA pa adise. Two years ag graduates took Jacob to task for not respon ing to their complaint about the quality o teaching. "We wer quite upset by wha students said about ou teaching," says Jacob "They pay good money to come her and they should have high expectation We have got to do everything we can t have zero defects."

To that end, he has banned rookie pr fessors from teaching core courses du ing their first quarter on campus. H has reduced newcomers' first-year teac ing load by 25%, to three courses, s they can observe the classroom tec niques of Kellogg's best professors. H has also launched a formal mentor-an orientation program for new teacher Now, Jacobs is considering hiring an a ministrator to run seminars on effecti teaching, videotape faculty teaching f critiques, counsel some professors, ar even publish a monthly newsletter innovative teaching techniques.

Jacobs wasn't the only dean to r spond to student complaints. When th University of Texas' B-school failed

Commentary/by Monica Roman

WOMEN, BEWARE: AN MBA DOESN'T MEAN EQUAL PAY

Warning labels are a way of life in the U. S. Maybe one should be written at the bottom of all master's degrees in business: "The MBA does not protect women against salary discrimination." Pretty strong stuff, but it may well be justified.

The cautionary note emerged when BUSINESS WEEK sorted through the responses from 3,664 of this year's B-school graduates. In addition to questioning grads about their schools, we asked who hired them and how much they will make the first year, including salary and bonuses. The survey shows that a female MBA from a top 20 school will take home an average of $54,749 in her first year after graduation. Not bad, until you consider that a male MBA will pocket $61,400 in first-year pay, or 12% more.

RED FLAG. Given the troubled state of the economy, it's hard to feel sorry for anyone, male or female, who's pulling down more than 50 grand a year. But unless schools are going to start offering 12% tuition discounts to women, that kind of pay gap should have a red flag to both schools and recruiters. It's also something a woman needs to consider when deciding to attend B-school.

Trying to explain away the disparity by saying that women go into lower-paying fields doesn't help. Even when grads are grouped by industry entered, women still show lower starting salaries. According to BUSINESS WEEK's data, men heading off for jobs in information-systems management will start out earning, on average, 29.5% more than women. The difference is not as great in marketing, where male MBAs will take home 6.5% more than women, and finance, where men report pay that is 3.3% higher.

It's difficult to leap to conclusions based on data for a given industry or school, especially those with small graduating classes. Indeed, companies and schools generally deny that discrimination accounts for the differences in starting pay. Some recruiters say women MBAs have less work experience and technical training than men. Others argue that women are taking lower-level positions that carry smaller paychecks.

The size of the overall discrepancy, however, suggests that there may be a bit of a head-in-the-sand attitude at work here. What quickly becomes apparent in discussing pay disparities is the scant attention B-school officials and corporate recruiters have given the issue. They claim to have little, if any, data comparing male and female compensation.

One school that does track starting salaries by gender has found a small but persistent gap over the past decade. At Northwestern University's Kellogg Graduate School of Management, the median starting salary for male MBAs in the class of 1990 was 2.9% higher than for females. Kellogg's figures do not include bonuses, which could be behind the wider earnings gap found by the BUSINESS WEEK survey.

NO GUARANTEE. If the results of the survey came as a surprise to B-school officials, they were no surprise to many experts. "The same bundle of skills found in a man command a higher rate of pay than an identical set found in a woman," says Audrey Freedman, a management counselor at the Conference Board. Echoes Betty Dooley, executive director of the Women's Research and Education Institute in Washington: "Women come cheaper."

It's not what women counted on when they began entering business schools in full force some two decades ago. The MBA degree was supposed to guarantee equal opportunity in the workplace, because winning a degree requires plenty of dedication and brains. Today, women make up 30% of the 16,247 full-time students at the top 20 schools. They leapt over the same hurdles as men to gain entrance to these prestigious institutions. They're paying the same tuition. Why should women earn less right out of the starting gate?

Even a small gap between what male and female MBAs earn is reason for concern. While there may be some tortoises among the women MBAs who will ultimately beat out their male counterparts, most will never catch up. Indeed, William Morin, chairman of Drake Beam Morin International Inc., a New York-based outplacement firm, says the 12% difference in pay mirrors the disparity in compensation between men and women executives.

Enlightened corporations understand that discrimination can be subtle, requiring cultural changes as well as more vigorous recruitment. Now, it's time for all companies and business schools to take a closer look at how women MBAs are faring in the marketplace.

THE PAY GAP BETWEEN MEN AND WOMEN

ANNUAL SALARY AFTER GRADUATION

DISCREPANCY IN PAY SCALES

	BY SCHOOL*	
$77,539	MIT 32.5%	$58,500
67,397	VIRGINIA 24.1%	54,306
62,785	UCLA 22.8%	51,147
65,009	COLUMBIA 18.6%	54,817
46,521	ROCHESTER 15.2%	40,367
61,400	AVERAGE 12.1%	54,749
80,412	STANFORD 7.3%	74,925
57,393	DARTMOUTH 5.0%	54,643
54,058	MICHIGAN 4.6%	51,702
54,322	BERKELEY 2.6%	52,934
53,762	CORNELL -1.2%	54,433
	BY INDUSTRY	
$50,441	INFO SYSTEMS 29.5%	$38,950
58,434	MANAGEMENT 13.6%	51,445
72,704	CONSULTING 9.0%	66,731
53,134	MARKETING 6.5%	49,902
56,664	FINANCE 3.3%	54,840

*THE FIVE LARGEST AND SMALLEST GAPS AMONG THE TOP 20

make BUSINESS WEEK's Top 20 ranking in 1988, Dean Robert E. Witt was besieged with complaints and concern. "First-year students were confused and angered," says a 1990 graduate. "After all, we had just given up jobs to go to a top-ranked business school."

MAJOR OVERHAUL. Witt called the students together in an open forum, and more than 400 showed up. "We had to set up a TV monitor in another classroom to handle the overflow," says Witt. "We started at 3 p.m., and at 6:15, I was still standing at the front of the room."

The session sparked the beginning of a revolution at the school. With Witt's concurrence, students formed task groups to improve nearly every aspect of their educational experience. The upshot: Students proposed a $100 fee per semester to help improve the program. With the extra $250,000 a year that produced, the school doubled its support staff of counselors and placement advisers.

Even more important, Texas' B-school hired its first admissions director, who took to the road to lure better students. More than 3,000 applications poured in—up from 2,400 a year earlier—allowing the school to become choosier. It accepted just 28% of its applicants this year, down from 37% in 1988. And this year, Dean Witt gained university approval to add 24 new faculty positions—the largest single allocation in the B-school's history. Not surprisingly, the class of 1990 felt far more enthusiastic about Texas, which helped the school place 18th in BUSINESS WEEK's ranking.

The most dramatic changes, however, occurred at the University of Chicago's Graduate School of Business. Two years ago, Chicago graduates were highly critical of the lack of balance in the school's curriculum. The catalog was loaded with courses on quantitative methods, but it paid little or no attention to "soft" management skills. An internal study came to the sobering conclusion that Chicago underemphasized day-to-day problem-solving techniques as well as the skills needed to manage people.

Chicago then took the unusual step of allowing its students, with the advice of faculty and outside consultants, to develop a new first-year program. To build camaraderie, the entering class of 550 students is divided into 10 "cohorts"—clusters that take all classes together and also function as social groups. Harvard and other schools have used the approach, but never Chicago. The school also added a series of required noncredit activities that range from nonverbal communication workshops taught by Chicago's Second City comedy troupe to seminars on presentation skills by outside consultants. Students go on a winter retreat for reflection and participate in an Outward Bound program that builds teamwork through such exercises as walking blindfolded on ropes supported by fellow students. Some 40 second-year students act as "facilitators" for the noncredit activities.

The experiment has been a huge success, resulting in a unanimous faculty vote earlier this year to make it a permanent part of the Chicago experience. "I've been here for 27 years, and I've never seen a unanimous faculty vote on anything," says Harry L. Davis, deputy dean of the MBA program. "Every organization should have a sandbox, a playful area where you do experimental things. This is our sandbox."

The program has transformed the school beyond the play area. "There was a lack of enthusiasm and spirit around here," says accounting professor Abbie J. Smith. "The change has been dramatic. The students are more outgoing and aggressive. They're showing fewer inhibitions in the classroom."

The program's success is reflected i the survey. Chicago graduates gave th school the highest grades in the ne poll, up from its 20th-place finish tw years ago. Says Dean John P. Goul "The student coming out of here is more complete product today."

If Chicago MBAs were among the mos satisfied of the class of 1990, graduate of Yale's School of Organization & Mar agement rank among the least satisfie They were highly critical of a major red rection of the school by Michael E. L vine, an economics professor who b came dean in 1988. Alums argue tha Levine has diminished the importanc that "soft skills" used t play in the curriculur and cut down on stu dents' flexibility t pick and choose courses Yale still grants a master' degree in public and pr vate management rathe than in business, but L vine is trying to bring th program closer to the mai stream. One recent gradu ate refers to Yale as " third-rate lemming of business school." Gradu ates ranked the schoo 29th among the 32 school surveyed.

RESENTMENT. Very fe members of Yale's class o 1990 believe the change were positive, and almos everyone agrees that L vine was hardly diplomati in implementing them. A graduation, many student refused to shake the dean' hand and accept a diplom from him. Some took th opportunity to hand hi letters of protest. Reflec ing resentment of the dean as an outsi er who violated the so-called tradition of the school, alums paid for an airplan to fly overhead, towing a banner wit the message: "Boesky. Milken. Lorenz Levine. All raiders will fall."

Nevertheless, Levine is sticking to h guns. After two turbulent years of ofte angry protest, he's looking forward to return to normalcy. So are many of th students, who came into the progra knowing that it would undergo signif cant change. "People are now puttin their energy into moving forward," say Randi Simowitz, a Yale student. "W want to get on with it." Even so, it likely to be several years before Levi can expect his students to get down wit funky rap songs of praise.

By John A. Byrne in Chica

Cover Story continues on page

FAVORITE HUNTING GROUNDS

Where recruiters say they find the best graduates for specific skills

DATA: BW SURVEY OF RECRUITERS

GENERAL MANAGEMENT	
1 HARVARD	6 VIRGINIA
2 STANFORD	7 INDIANA
3 NORTHWESTERN	8 DARTMOUTH
4 WHARTON	9 CHICAGO
5 MICHIGAN	10 UCLA

MARKETING	FINANCE	PRODUCTION
1 NORTHWESTERN	1 WHARTON	1 PURDUE
2 COLUMBIA	2 CHICAGO	2 CARNEGIE MELLON
3 HARVARD	3 HARVARD	3 MIT
4 INDIANA	4 MICHIGAN	4 MICHIGAN
5 STANFORD	5 COLUMBIA	5 HARVARD

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The Macintosh LC.

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* The figures are included in a 1990 study conducted by Diagnostic Research, Inc., among Fortune 1000 managers and business computer users familiar with Macintosh and MS-DOS or Windows systems. Call and we'll se
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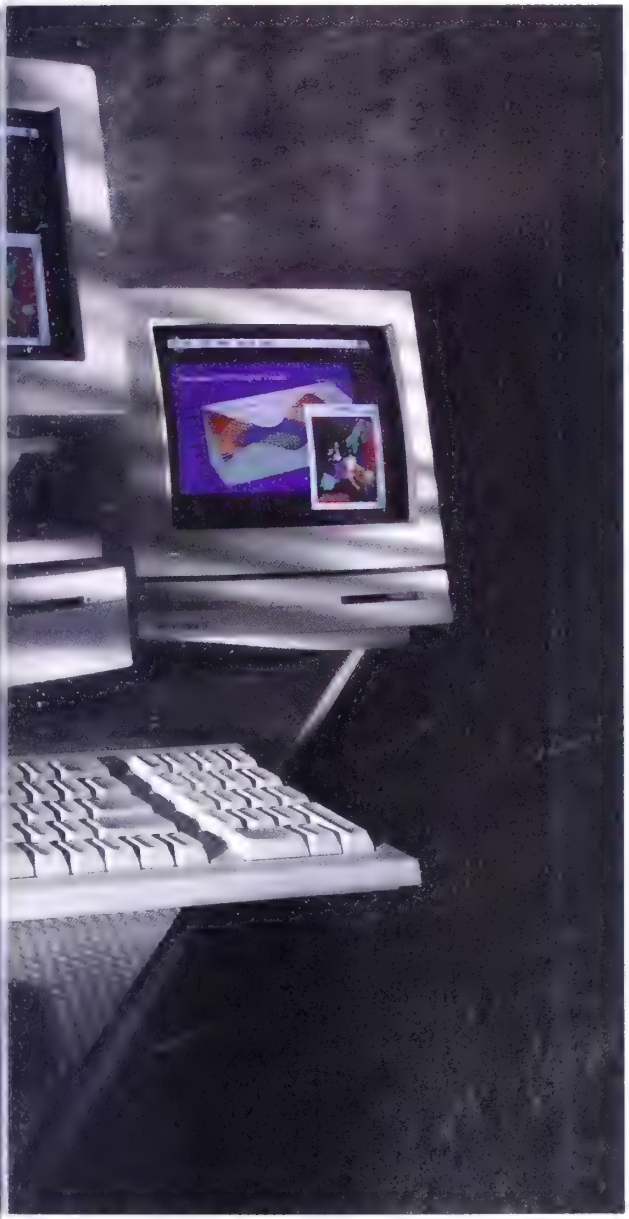

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IS RESEARCH IN THE IVORY TOWER 'FUZZY, IRRELEVANT, PRETENTIOUS'?

B-schools stress scholarly papers, but a lot of what emerges has no value for the manager

Richard R. West had just become dean of New York University's graduate school of business,.. and a small group of management faculty was in his office. The conversation shifted to the school's policies on promotion and tenure.

"Could Peter Drucker get tenure here today?" West asked. The consensus was that Drucker, the most influential management guru of the past 40 years, wouldn't deserve tenure—even though he had once been a tenured professor at the school. "He's a journalist, not a scholar," sniffed one professor.

'BANKRUPTCY.' West, a well-published academic himself, was shocked. Six years later, he's still amazed by what he considers the overemphasis placed on scholarly research at most business schools. After spending some time over a weekend with a recent issue of the *Journal of Strategic Management*, West found only one article, on corporate entrepreneurship, of any interest. "It's often crap," he says of academic writing in learned journals. "They say nothing in these articles, and they say it in a pretentious way. If I wasn't the dean of this school, I'd be writing a book on the bankruptcy of American management education."

West is on one side of a hot debate in business-school circles over the hundreds of millions of dollars spent annually on research by B-school faculty. The critics say that professors are spending far too much time on fuzzy academic theories in narrowly defined disciplines at a time when American business is beset with a host of competitive problems. They argue that B-schools should address such issues as managing technology, investigating the causes of declining productivity, and enhancing knowledge of global marketing.

A case in point is the issue of quality. After gains by Japanese companies, American corporations finally began to pay attention to the quality-control concepts of guru W. Edwards Deming in the early 1980s. But even today, there's much skepticism in the B-school world over its importance. At a conference on quality sponsored by Xerox Corp. in August, B-school deans and faculty came together to discuss the issue. "There was a certain amount of cynicism there," says Robert E. Cannon, senior vice-president in charge of quality at Procter & Gamble Co. "They wondered if quality was a fad or not."

Yet many deans insist that to expend all their energy on such topical projects would make B-schools far too vocational. "The right answer is balance," insist Thomas P. Gerrity, dean of the Univers ty of Pennsylvania's Wharton Schoo "It's not one way or the other. Busines schools can't lose sight of their fund mental intellectual foundations. It woul be a tragic mistake to swing back to th other side of the pendulum." A. Micha Spence, dean of Stanford University school of business, says flatly: "I don think we're out of balance."

SQUANDERED? It's an important issu because B-school faculty today spend a much or more time on research tha they do in the classroom. The Top 20 B schools alone spend nearly $240 million year on research, with the budgets ran ing from a high of $40 million at Wha ton to a low of $1 million at Dartmout College's Amos Tuck School. The bulk the money supports faculty time n dedicated to teaching.

No one doubts that research is critic to the development of faculty and ca add both excitement and relevance classroom discussio But West is not th only one to question i relevance to busines professionals and go ernment policymaker Some B-school deans g so far as to say th well over half the r sources devoted to r search are squandere "As much as 80% management researc may be irrelevant," es mates Scott S. Cowe dean of the Weathe head School of Manag ment at Case Weste Reserve University. wonder if the majori of it is of any signi cant value to executiv in terms of influenci their daily actions, b haviors, or busine practices."

An informal BUSINE WEEK survey confir that big bucks are assurance of either to notch research or re vance. After asking t

NYU'S WEST: "IT'S OFTEN CRAP. THEY SAY NOTHING IN THESE ARTICLES"

demic deans at a dozen top B-schools name the leading journals read by ecutives, BUSINESS WEEK composed a ple index of research accessible to professional manager (table). The vey found that Harvard business ool is a bastion of research, produc- far more insight and relevant infor- tion for executives than many other ools that have long-held reputations traditional scholarship.

ndeed, most of these leading institu- is produce so little of professional rel- nce that Claremont Graduate ool, whose business school has relatively puny $350,000 re- rch budget, makes the Top It ranks far higher than resource-rich schools at University of Chicago and umbia University, which nd 79 times and 54 times as ch, respectively, every year on earch. How can Claremont's B- ool, with only 13 professors, k so high? Largely because it's professional home of the pro- Peter F. Drucker.

RT SHRIFT? Scholarly research been an imperative at the na- 's graduate schools of business r since the late 1950s, when ex- stive studies by the Ford and negie Foundations stirred a or redirection in business edu- ion. At the time, business ools were serving up a largely ational array of courses and y lacked academic legitimacy he college campus. To gain re- ct, the schools lured business llectuals to their faculties, re- igned their curriculums, and re- ted far better students. Even ics agree that business-school educa- is much better now than it was dur- the early postwar years.

ut is teaching getting short shrift? en Donald P. Jacobs joined the facul- f the B-school at Northwestern Uni- sity as an assistant professor of fi- ce in 1957, he was required to teach courses a year. By the time he had ome dean in 1975, the teaching load shrunk to only six courses, to allow ulty more time for research. Today, average is four courses a year. If a fessor is editor of a journal or direc- of a research center, it's only three rses. "The demands have shifted n the classroom to research output," s Jacobs.

he "publish or perish" mindset that lved on the business campus, more- r, encouraged the kind of theoretical k common to other nonbusiness sub- s in the university. One of the main sons why so much of the research is eric is because the reward system ain the universities is geared to the publication of faculty research in referred journals which, critics maintain, have made obscurity the hallmark of the truly scholarly article. As many as 100 journals—some of them barely read by the academics themselves—now exist in the B-school world, as much to allow junior faculty to gain credits for promotion and tenure as for anything else. The papers are largely written to please an inner circle of academic experts who must approve an article before it can be published. Morris Holbrook of Columbia University has called the lengthy review process "a socially approved form of intellectual sadomasochism." Delays of up to two or three years are common because reviewers often demand pages of revisions.

The tortuous process also encourages faculty to do research in certain areas deemed popular by the key journals. That increases a junior faculty member's chance of getting published, though it obviously discourages pioneering more innovative fields of study. The upshot is that too much horsepower is placed behind too few subjects. "What is really troubling is that anything that doesn't fit into the existing paradigms doesn't make it," says West. "So we have too many accounting profs studying agent theory." Asks Edward A. Fox, dean of Dartmouth's Amos Tuck School: "How many discounted-cash-flow models does the world need? The point is that a lot of what passes for research has no value."

Often, critics say, the outcome is a trivialization of what is studied. Rather than advance a given field of study, many articles focus on complex methodologies of research or simply minor improvements on old ideas. "The result is something like knowledge creep rather than knowledge spurt," says Robert A. Garda, a director of McKinsey & Co.

Compounding the problem is the failure of the vast majority of faculty research to take an integrated view of the problems facing business professionals. "We carve up business in small pieces—marketing, finance, production, human behavior—and that's not the real world of the businessperson," says Jeffrey A. Sonnenfeld, who directs the Center for Leadership at Emory University's B-school. "Research is often trivial because it's irrelevant in a world that doesn't see problems through narrow, functional lenses."

LEFT BEHIND. Trivialization is also why, with the exception of finance and economics, consultants and other business observers have outstripped academia in developing useful concepts and analytical techniques for the real world of business. The award of a Nobel Prize in economics on Oct. 15 to Merton H. Miller of the University of Chicago's B-school for his work on the cost of finance and capital structure of corporations is a notable exception, and it occurs not surprisingly for work in finance.

Harvard business school's Michael E. Porter, however, has lamented the small contribution made by academia in strategy, where his own work has found a strong following in business. "The initiative in research on strategy left academia for at least a decade," says Porter. "The new ideas were being developed in industry at Shell and General Electric as well as in the consulting firms, such as Arthur D. Little, Boston Consulting Group, and McKinsey." Academia's lack of interest in strategy, among other things, also explains why such names as Drucker, Deming, Thomas Peters, and Robert Waterman are more familiar to executives and managers than most academics.

As B-schools seek more funds from the corporate world, the misguided re-

RELEVANT RESEARCH

Where business professionals will find the most relevant research

Schools	Research credits*	Research budget Millions	Tenure-track faculty
1 HARVARD	386	$35.0	164
2 BERKELEY	134	8.4	78
3 MIT	125	8.0	117
4 WHARTON	63	40.0	174
5 USC	54	3.5	125
6 NYU	53	18.0	163
7 STANFORD	47	5.2	89
8 CLAREMONT	47	0.4	13
9 COLUMBIA	44	19.0	110
10 BOSTON U.	38	4.5	121

*Research credits were awarded as follows: Three credits for each article published by a faculty member in *Harvard Business Review, Sloan Management Review, California Management Review, Financial Analysts Journal, Journal of Applied Corporate Finance, Interfaces,* and the *Journal of Marketing* from June 30, 1985, to July 1, 1990. Six credits for each review of books written by B-school professors that appeared in *Business Week, Fortune, The Wall Street Journal,* or *The New York Times* over the same period

DATA: BW, TOP 20 B-SCHOOLS

Professors who write for a workaday business audience are treated like second-class citizens in academe

Why the "new" thinking in M&A isn't new to us.

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ver half a century ago, J.P. Morgan, Jr., said, "The clients' belief in the integrity of our advice is our best possession."

search priorities of faculty are becoming more apparent to many executives. Consider the University of North Carolina's launch of a Center for Manufacturing Excellence two years ago. At an early meeting with the center's advisory board, which includes executives from such companies as Johnson & Johnson and Eastman Kodak Co., the faculty proudly presented different research projects for funding. Embarrassingly, the board rejected several of them. "They thought the ideas were irrelevant," says a B-school professor at the university. "Businesspeople look at some of this as if it's gobbledygook."

The faculty at Vanderbilt University's business school got a similar reception from the executives on its Operations Round Table, a research partnership that the school has formed with such companies as Digital Equipment Corp. and Northern Telecom Ltd. to study operations problems. Soon after the faculty began to expound its ideas, the managers set them straight. Says Joseph D. Blackburn, a professor of operations: "If not for our partnership, we would have kept on studying our scheduling algorithms and mathematical calculations." The Round Table has been working on how to shorten production cycles, new-product development, and customer-service cycle times.

'WHORING.' Although business schools, like medical colleges of a university, are so-called professional schools, business academics lack an equivalent of the *New England Journal of Medicine*—an often-quoted publication that manages to be both scholarly and accessible to the professional. Indeed, most academics look askance at writing for the *Harvard Business Review*. "It's not quite whoring, but if it's given any value, it's seen as educational instead of scholarly, which is an unfortunate distinction," says John W. Rosenblum, dean of the University of Virginia's Darden School.

Those who dare to write for a managerial audience are made to feel like second-class citizens in the academic culture. Peter M. Senge, director of the Organizational Learning Program at Massachusetts Institute of Technology's Sloan School of Management, confesses that he felt "a little nervous" when his first management book, *The Fifth Discipline*, was published in August. "I figured some colleagues would say, 'Hey, you wrote this for managers, and it's not scholarly enough.' There are a lot of people who will say snide things about it behind my back." Senge can take some comfort, however, that such sniping these days at least is likely to set off a lively debate in the faculty lounge.

By John A. Byrne in New York

RATING B-SCHOOLS: HOW WE CRUNCHED THE NUMBERS

When it combined the judgments of students and corporate recruiters into a new ranking system for business schools in 1988, BUSINESS WEEK stirred up a hornet's nest. While the schools whose reputations were enhanced generally reveled in their new status, other schools complained that the results were unfair. Among the criticisms: The number of people surveyed was too small; recruiters seemed to show a prejudice against smaller schools. Partly to respond to such criticisms, BUSINESS WEEK strengthened the survey the second time around.

Like the previous ranking, the latest is based on a composite of two separate polls conducted during the spring and summer. Matthew Goldstein, president of the Research Foundation of the City University of New York, consulted on all aspects of the polling process.

■ Graduate survey

A 30-question survey was mailed to the latest graduates of 32 top schools, nine more schools than we covered in 1988. Surveys were sent to graduates selected at random from class lists. Of the 5,885 questionnaires sent out, 3,664 were answered and received in time for analysis, yielding a response rate of more than 62%. That is nearly three times the number of replies two years ago.

Graduates were asked to answer each question on a scale of 1 to 10. One example: "Are you comfortable with your ability to deal with computers and other analytical tools that affect your ability to manage?" If a graduate was "very confident," he or she would answer "10"; graduates "just barely" comfortable with computers would answer "1."

The responses were weighted to account for how closely they related to overall satisfaction. The weighting also valued more highly the questions that showed the least variability in responses. Ranking with weighted data altered standings for some schools by up to four places.

■ Recruiter survey

A total of 322 organizations with established histories of recruiting MBAs were polled. Officials designated by companies received the survey and were assured that their answers would be confidential—as was the case for graduates. Some 149 companies replied to the survey, a response rate of 46%.

Recruiters were asked to provide an overall preference, taking into account such things as the school's quality and the success rate of its graduates. Each recruiter was asked to list a top 10, in order. A school named No. 1 received 10 points, while a school ranked 10th got 1 point. The total score for a school was then divided by the number of responding companies that recruited at the school. That became the basis for the recruiter ranking.

More recruiters, however, tend to visit the larger schools because they offer more graduates for hire. So, unlike two years ago, ratings for schools with enrollments under 400 were adjusted to account for the large-school bias.

■ Composite Ranking

To gain the overall ranking, the raw scores from both surveys were combined using a standard statistical approach for independent scores. Recruiter opinion naturally looms larger in the overall ranking because there's a larger spread between the top and bottom in that survey. In the graduate poll, the difference between the No. 1 school, Chicago, and the University of Iowa, ranked 32nd, was about 37%. The difference in the corporate poll between No. 1 Wharton School and the University of Florida, which ranked last, was about 590%. With even more recruiters participating in the latest survey, results like that will be hard for schools to ignore.

THE SURVEY

GRADUATE POLL

	1988	1990
SURVEYS	2,996	5,885
REPLIES	1,245	3,664
RESPONSE RATE	42%	62%

RECRUITER POLL

	1988	1990
SURVEYS	265	322
REPLIES	112	149
RESPONSE RATE	42%	46%

DATA BW

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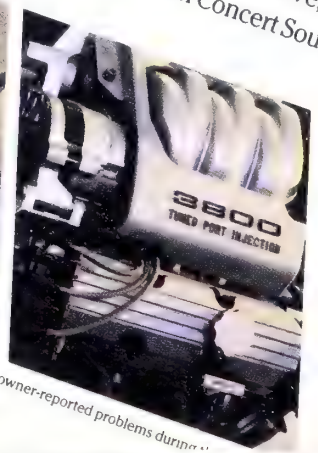

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STRATEGIES

THE LOOSE BOLTS IN CARBIDE'S RETOOLING

Its latest makeover underwhelms investors and shareholders

A CARBIDE CHEMICAL PLANT: FROM NOW ON, THE COMPANY IS STICKING TO ITS CORE BUSINESSES

Four years ago, GAF Corp.'s acquisitive Chairman Samuel J. Heyman took a run at a bloated Union Carbide Corp. He didn't pull it off. But the takeover scare was a shocker at Carbide. Soon after, Chairman Robert D. Kennedy placed the unwieldy chemical giant on a crash diet, spinning off some $1.8 billion in assets. He also sliced through layers of bureaucracy, and late last year he recast Union Carbide into a holding company lording over three nicely focused businesses: chemicals, industrial gases, and carbon products.

With takeover financing scarce, Kennedy isn't looking over his shoulder for raiders now. Yet he's still taking heat from investors to prop up Carbide's pitiful stock price, off a stunning 41% this year, vs. a 12.8% drop for the Standard & Poor's chemical group. So in late September, Kennedy unveiled yet another makeover, trying to brighten up investors' spirits with a 20 million-share buyback, or 14% of outstanding stock. He's also spinning off two small businesses and selling 50% of Carbide's carbon business. Kennedy, who wants to refashion Carbide into a leaner competitor and boost its sagging share price, says: "That was an opening salvo in a war."

In the battle to boost profits, however, Wall Street believes the first shot fell woefully short: Carbide's stock increased only ⅝ on the news, to 14⅞. Wall Street had hoped for more daring moves, such as a spin-off of Carbide's industrial gas business. Some investors, perhaps unrealistically, also held out hope for a takeover or bust-up of Union Carbide's decidedly undervalued assets. Says one institutional shareholder: "Expectations were squashed."

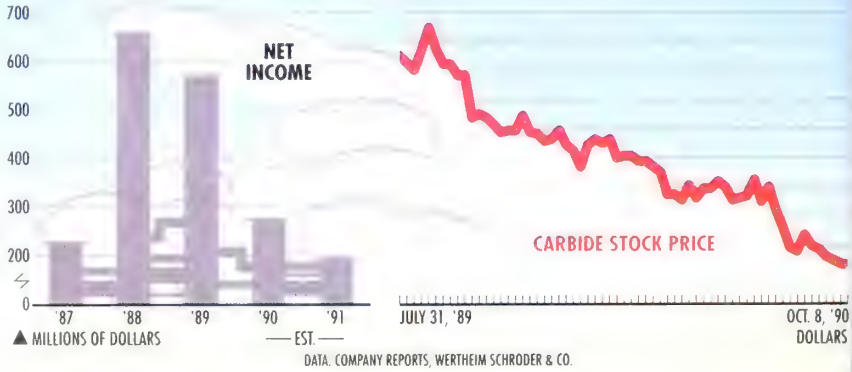
That wasn't exactly the reaction Kennedy had in mind. Even so, he's confident Carbide now has the right business mix to prosper in the 1990s and win over Wall Street skeptics. The focus now on Carbide's core industrial gases a chemical units, representing 91% of tot revenues and 97% of operating profit Kennedy is also betting that the comp ny's return on assets—a lackluster 6.7 vs. a 9% industry average—will impro as he pours money into technolog ratchets up productivity, and divests.

Not an unreasonable strategy. B Kennedy's managerial talents will so be put to the test. The recent runup crude-oil prices has raised his raw ma rials prices by $1 million a day—ju when a capacity glut could swamp t industry. One indicator is ethylene, t basic building block for a vast range plastics. Because of new capacity start when business was booming, the indu try's output of ethylene will increa nearly a quarter by 1992, figures Jo R. Dosher, senior vice-president at Pa Consultants Inc., petrochemical adviser He also expects consumption to hc steady or even drop. Worse, prices ha already plunged by nearly 22%, to 25¢ pound since 1989. And ethylene isn't t only petrochemical feeling the pinch.

PLASTIC POWER. This capacity glut ready is taking a nasty bite out of Ca bide's earnings. Net income is expect to drop nearly 52%, to $273.5 million f the year on revenues of $8.3 billi (chart), estimates Wertheim Schroder Co. analyst John L. Garcia. If the cher cal industry really starts singing the lo notes, Carbide's earnings may drop additional 29% in 1991, says Garcia.

To ride out the tough times, Kenne has begun upgrading the company plants to become a stronger competit One example is Union Carbide facilit for making polyethylene, the plas used in trash bags and similar produc By investing in new, more sophisticat reactors to refine raw materials, t company has doubled its capacity, wh reducing the number of reactors to from 28. The result: Union Carbide h cut in half the polyethylene price

AN EARNINGS SLIDE... ...IS SOCKING STOCKHOLDERS



DATA: COMPANY REPORTS, WERTHEIM SCHRODER & CO.

eds over raw material costs to turn a ofit on the product.

Such heads-up manufacturing is what nnedy has in mind to trounce the npetition. Or as William H. Joyce, ex-ıtive vice-president of Carbide's emicals & Plastics Inc., puts it: "I nt them to bleed so badly they have cry uncle."

That kind of in-your-face attitude is tainly timely. Yet Kennedy may have ssed some easy cost savings during recent chemical industry boom. ıen Carbide's earnings were strong in 8 and 1989, he was still trying to ure out what businesses the company nted to keep. While other chemical npanies slashed costs, Carbide moved wer. Now, it's paying the price. This ır, it will turn in an estimated 6.7% tax margin, vs. the industry's 11.7% rage. Kennedy believes that recent estitures will make it slightly more icient than the industry average.

He was also slow to recoup global ca-ity. He divested sizable amounts of eign operations during the GAF raid, European and Far Eastern markets y grow roughly twice as fast as those the U.S. Competitors such as Dow emical Co. and ARCO Chemical Co. al-dy have strong international opera-ıs. Now, there's little in the market Kennedy to buy, and he likely will ve to count on joint ventures with for-n companies. Carbide already has d discussions with Italian chemical ker Enimont, but a deal isn't consid-d imminent, says one insider.

PEY. Kennedy is taking advantage of opportunity. Union Carbide's $2.4 ion industrial gas business, which ns out products for industrial users l medical markets, has long offered apped potential. The unit has had an rage net margin of only 2.5% since 7. Says one merchant banker in the ustry: "They're uniquely unsuccess-." Now, however, Carbide believes it found fresh, lucrative markets such selling oxygen for new applications in st furnaces for the steel industry. In-d, Kennedy's team considered recent ls from Wall Street to spin off the t a "dopey thing" to do.

Until Kennedy can get more earnings of Union Carbide's gas business and e advantage of his new production ilities, Wall Street isn't likely to cry anna. For all the reshuffling, Kenne-has yet to prove that Carbide isn't lly worth more dead than alive. rtheim's Garcia figures Carbide could ch up to $50 per share, far above its ent trading price. Raiders may not ve the finances to launch their attacks more, but the breakup computations ven't changed much since Sam Hey-n was beating at Carbide's door.

By Todd Vogel in Danbury, Conn.

JAG'S PLANT IS AMONG "THE WORST I HAVE EVER SEEN," SAYS THE NEW CHAIRMAN

CAN FORD MAKE A TIGER OUT OF JAGUAR?

A $2 billion infusion will juice up design and triple capacity

As a hostile bidder for Jaguar PLC, Ford Motor Co. caught only a glimpse of its quarry before bagging it. So not long after taking control last December, a team of Ford executives fanned out across the British luxury-car maker's operations to see what they had bought for $2.6 billion. What they uncovered behind one of the industry's most gilded nameplates was anything but heartening.

Jaguar was slowly starving to death from lack of investment. Its well-known quality woes were only the most visible problem. The real shocker was the auto maker's small and dispirited engineering corps. New versions of older models were light-years away. And the only new model on the drawing boards—a small sports car—was immediately shelved by Ford for being too underpowered and prohibitively expensive to make. Jaguar's primitive factory with its antiquated union practices didn't help matters, either. "I have been to car plants all over the world," William J. Hayden, a 61-year-old Ford veteran and Jaguar's new chairman, told the British car-buff magazine *Car*. "Apart from some Russian factories in Gorky, Jaguar's factory was the worst I had ever seen," said Hayden, who's now recuperating from heart surgery.

So, in that grand tradition of Soviet economic planning, Jaguar and Ford execs have devised two back-to-back five-year plans to resuscitate the company. On Oct. 20, Ford Chairman Harold A. Poling is scheduled to fly to Britain to review their scheme. If he waves his scepter over the plan, Jaguar will never be the same. Ford hopes to replace Jaguar's entire range of cars and engines, revamp its factories, and triple capacity.

SUPPLIER SIDE. The price of this makeover will run a cool $2 billion or so. That's what it will take to position Jaguar as a luxury-class powerhouse on a par with BMW or Mercedes-Benz—and quell criticism that Ford bought an expensive dud. "The basic reasons that we purchased Jaguar are still sound," says Poling. "It was a long-term decision."

Ford's long-term perspective is testimony to the depth of Jaguar's problems. During the first five-year plan, Ford will be hampered by Jaguar's empty new-product cupboard. So, while an expanded engineering team feverishly works on new models, Jaguar hopes to make big improvements in the quality and reliability of its two long-running models: the XJ-6 sedan and XJ-S sports car, whose sticker prices range from $40,000 to $60,000. Improved quality should signal the coming changes to customers and

THERE'S BEEN A LOT OF TALK about the environment lately. But out on Chesapeake Bay, sailing around on a vintage skipjack, a group of school kids are learning that when it comes to the environment, actions speak louder than words.

Myrtha Allen, Environmental Sciences teacher at P.S. 405, Baltimore, explains, "Most of my kids are city born and bred. They live in apartments, they get their milk in cartons, their eggs in those styrofoam containers. They were about as interested in the environment as they are in

"IT WAS THE FIRST FISH Jawan had seen that WASN'T SURROUNDED by french fries."

MYRTHA ALLEN, [illegible]

homework." She smiles at a nearby eight-year-old. "And who can blame them? Some of them, like Jawan here, had never even seen a live fish before."

That's where the Chesapeake Bay Foundation stepped in. Since 1966, when it started in Annapolis, Maryland, with a rented fishing trawler and little else, the Foundation has taken more than 300,000 students out into the Bay to experience the environment first hand. And at the same time making them aware of how important their contribution is to the future of the planet.

Myrtha puts it simply. "To get these kids wanting to clean up the world, we've got to get their hands dirty."

And they do. They get very dirty.

"Oh yeah," chuckles Myrtha, "we do it all. Once we threw a net in just to see what we'd get. When we pulled it up, sure enough there were the milk cartons, the soda cans, the egg containers. And flapping around in the middle of it all was this big, cranky striped bass. You should've seen their faces.

"We took 20 little consumers out on a boat that day. We came back with 20 budding environmentalists."

At Toyota, we're proud that through the support we give to the Foundation more kids like Jawan will be able to experience our fragile environment first hand. And hopefully start playing an active part in preserving it.

Is the program working? "These kids are organizing neighborhood recycling drives,

they're writing letters to Senators. Take a look at these posters some of my students have been doing."

The classroom walls are alive with crayon and pencil. Bright orange crabs. Smiling oysters. Families of ducks.

And one poster that stops everyone. It's of a smiling little boy holding hands with a big striped bass. And boldly scrawled above both their heads is one word: "Brothers".

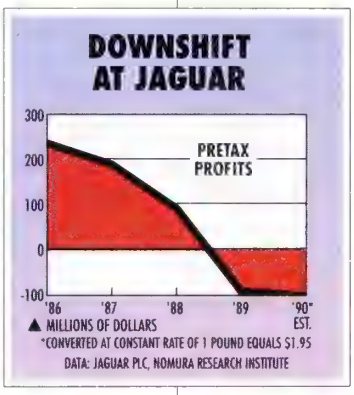
And it's signed by Jawan. Age eight.

TOYOTA
INVESTING IN THE INDIVIDUAL

allow for some judicious price increases.

Meanwhile, Ford hopes to return Jaguar to profitability by slashing costs and boosting productivity. For example, by capitalizing on Ford's buying clout, Jaguar figures it can save some 8%, or $100 million, on parts yearly. It will need every penny: Jaguar is expected to lose as much as $100 million this year (chart). But well before 1995, says Jaguar Deputy Chairman John A. Grant, the company "should be making significantly more profit than it has ever seen before."

Ford expects the profit surge to help bankroll some of Jaguar's ambitious plans after 1995. Then, Jaguar will finally roll out upgraded versions of its two existing models spiffed up with advanced technology from Ford's labs. Soon after, say by 1998, Jaguar will launch its secret weapon: a smaller new sedan to compete with BMW's popular 5-series model. By the end of the century, Jaguar plans to produce more than 150,000 cars a year, up from 48,000 last year. Half of those will be the new model, says Grant.



That's the plan. But here's the rub. Tripling sales, when the luxury-car market is getting crowded with more Japanese and German models, will be quite a feat. Moreover, the general market conditions for Jaguar look bleak. Sales in Britain were down 24% through September, because of a slumping economy. And although U. S. sales, 40% of Jaguar's market, are up slightly, margins are getting hammered by widespread discounting and the plunging dollar. The oil price surge is another wild card. "There's no way that Ford would have paid anything like $2.6 billion in the current climate," says John K. Lawson, an analyst at Nomura Research Institute in London.

SMOOTHER RIDE. Perhaps. But Ford is trying mightily to make the deal reap big gains, nonetheless. Early on, Hayden brought together engineering and manufacturing staffers for two days of talks, a novel idea at Jaguar. Factory hands identified about 1,000 problems they commonly encountered, some of which were news to those who designed the cars. Ford has since authorized spending on several quality-improvement projects, and Jaguar already has recorded a 25% drop in defects, according to Ford.

Dealers have begun to take notice, too. J. Douglas Rood, president of Black Horse Motorworks Ltd. in Lexington, Ky., says that "Jaguar has had somewhat of a tainted past in terms of their reliability." But now, he says, cars a arriving with better paint jobs, close fitting door panels, and smoother e gines. And he says that one persiste problem, a balky trunk latch, finally h been cleared up.

Jaguar also is starting to face dow its stubborn unions. The union contrac are up for renewal on Nov. 1, and Ja uar management is demanding whol sale change and productivity gains. won't come cheap: Ford may agree to union demand to bump up wages beyo the 11% British inflation rate.

IRON AGE. Even so, Ford desperate needs a victory. Thanks to Jaguar pussycat stance in recent years, it h never won the dramatic work-ru changes that swept through the Britis auto industry during the 1980s. For i stance, Jaguar worke still have daily quot of job tasks. When t quota is filled, they sim ply stop working. Wa through the factory minutes before quittin time, and you'll s many workers readin newspapers.

It's no wonder, the that productivity is di mal. In terms of annu cars per worker, Ja uar's rate of four half that of its German rivals—and fourth as good as Toyota's Lexus div sion. With help from Ford, Jaguar's e gineers are hoping to design future mo els with an eye to easier assembly an repair.

The Ford connection is expected t help Jaguar in subtler ways. Jaguar wa facing a steep bill for developing a bags for its U. S. models, but it will no be able to use Ford equipment. N could tiny Jaguar keep up with such m jor technological advances as antiloc brakes. The auto maker's high-tech r search consisted of 20 engineers fran cally scanning the literature.

If Ford can work the quality and pr ductivity miracles it promises, a sal target of 150,000 a year may not be s far-fetched. BMW, after all, sells 500,0 cars a year. Consider, too, that Jaguar British blue blood image remains poten In fact, the trick for Ford will be t bring its mass-marketing expertise t Jaguar without compromising its sil stocking aura.

So far, Ford seems to be making a the right moves. And as long as it ha better luck with five-year plans than th Soviets, Ford's Jaguar deal may pay o in the long run.

By Mark Maremont in London, wit Dave Woodruff in Detroit

1	Exxon
2	General Motors
3	Mobil
4	Ford Motor
5	IBM
6	Texaco
7	E.I. du Pont
8	Standard Oil (Ind.)
9	Standard Oil of Cal.
10	General Electric
11	Gulf Oil
12	Atlantic Richfield
13	Shell Oil
14	Occidental Petroleum
15	U.S. Steel
16	Phillips Petroleum
17	Sun

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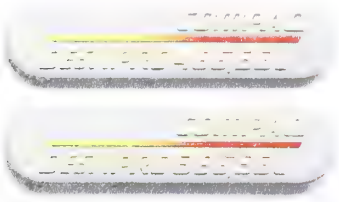

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And this year's best performance. Group.

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These innovations are complemented by the COMPAQ DESKPRO 386N and COMPAQ DESKPRO 286N Personal Computers, PCs designed with specific network features. Put them all together with Novell's NetWare, Microsoft's LAN Manager, SCO's UNIX or other industry-standard network or multiuser operating systems and you'll get the greatest performance to ever hit the networks.

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ADVERTISING

MADISON AVENUE IS GETTING A LOT LESS MADCAP

Tightening client budgets are leading to simpler pitches

APPLE ADS THEN AND NOW: FROM 'HIGH CONCEPT' TO LOW PRICES

The commercial has already passed into Madison Avenue lore: Rows of glassy-eyed automatons sit mutely while a vast television screen flashes images of Big Brother reciting Marxist rhetoric. Suddenly, with a defiant shriek, a young woman hurls a sledgehammer at the screen. "On Jan. 24th," the narrator intones, "Apple Computer will introduce Macintosh. And you'll see why 1984 won't be like '1984.'"

Fast forward to 1990. In a new Macintosh commercial, a high school teacher extols the virtues of mass production to his students. "That which was affordable to the few becomes available to the many," he says. Images of an Apple assembly line flash across the screen along with the tagline: "Coming Oct. 15, the most affordable Macintosh computers ever."

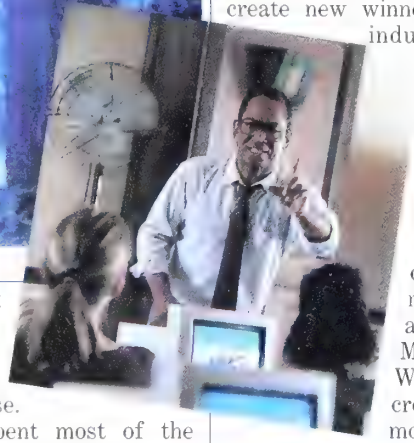
Apple's new campaign is textbook advertising: It stresses low prices and doesn't hesitate to make direct comparisons between Macintosh and its rivals. That's a far cry from "1984," which offered a surreal vision but nary a glimpse of the product. Many Apple ads were more product-oriented, of course. But the company spent most of the 1980s nurturing its image as a scrappy, new-age alternative to giant IBM. Now, Apple is switching to a traditional strategy of selling on price. "The story is basically that Mac is very affordable," says Apple Chairman John Sculley. "It's a basic message. It's less romantic."

SOBERING DECADE. Sculley's cut-and-dried approach could be a harbinger of a sobering decade for Madison Avenue, as flamboyant advertising threatens to go the way of the leveraged buyout. Today, marketing budgets are tightening (chart), and a recession is taking hold. The result: Companies want more ads that get results fast and fewer "high-concept" campaigns that spend big bucks to conjure up images and values linking the product to the customer. Says Philip B. Dusenberry, vice-chairman of Apple's current agency BBD Worldwide: "The tendency of clien when times are tough is to play it safe

Some ad executives predict a return 1970s-style advertising. "I am expecti a resurgence of advertising in the tra tion of the unique selling propositio says Hank Seiden, chairman of Ketchu Advertising New York. That method s gles out a product's key attribute a hammers it home through repetition.

For decades, consumer-products co panies such as Procter & Gamble have used this strategy to peddle la dry detergent, disposable diapers, a the like. But now, observers say t style may spread into categories whe clients have long been willing to go wi a subtler pitch. Such a trend has histo cal precedent: Doyle Dane Bernba Inc., which led the creative revolution the '60s with its "Think Small" ads f Volkswagen, went through a pain contraction during the recession of 19

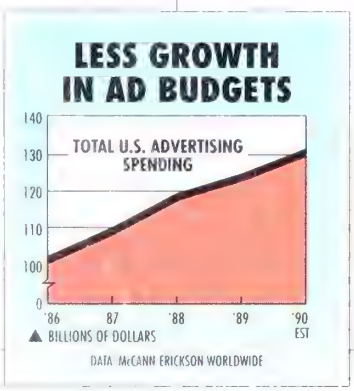
The shift to cheaper and simpler co create new winners and losers in t industry. Boston's Hi Holliday, Conno Cosmopulos I has had a roc year with Niss Motor Co.'s Infi account: Slow sa prompted the carma er to scrap its Zen-li campaign in favor more product-orient ads. And Chiat/Da Mojo, the high-flyi West Coast agency th created "1984," has l more than $100 million business this past year.



The latest loss for Chiat is Royal ribbean Cruise Lines' big $35 million count, which the client yanked on Oct. Its new agency is Rosenfeld, Sirowi Humphrey & Strauss Inc., a New Yo shop with a low creative profile. Ros feld denies it, and Royal Caribbean not return calls, but Chiat/Day's Cha man Jay Chiat says cost-cutting was factor in the switch.

As for his agency's reputation for orthodox advertising, Chiat doesn't s it as a liability. "We've done some rea good work during two previous rec sions," he says. Yet during a recent se inar in New York about the making "1984," Chiat acknowledged that so prospective clients see the shop's unc ventional style as a sign of instability

The current appetite for lower co could redound to the benefit of su agencies as Grey Advertising Inc., wh focuses on squeezing the most out o budget. Grey's western division sch



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We'll "go to the ends of the earth" to keep you completely satisfied with your Kodak copiers. And, with our 13-point Kodak Guarantee, that's going pretty far.

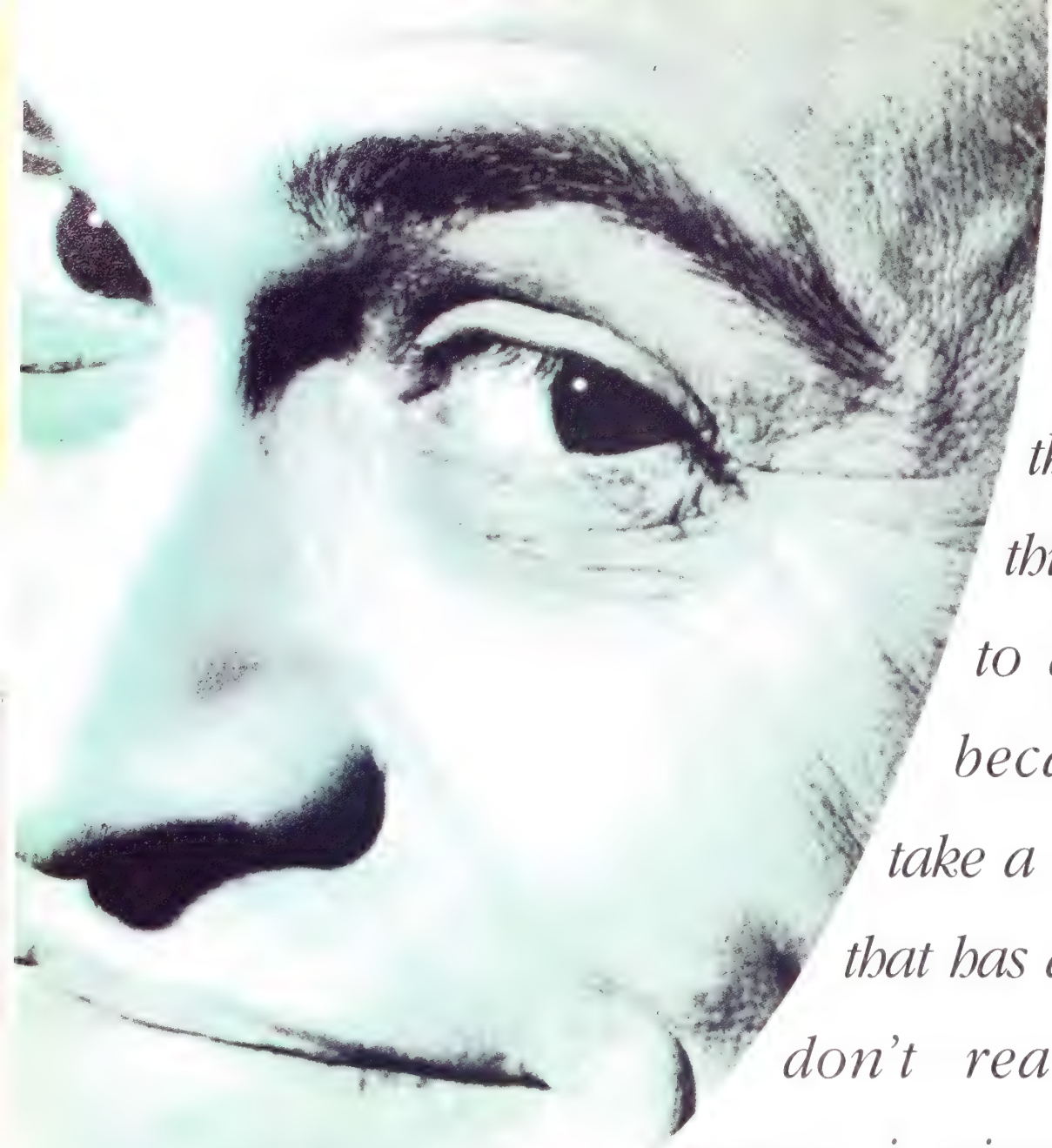
Actually, we're not quite sure where the ends of the earth are, but we really will do whatever it takes to make you a satisfied Kodak copier customer. The Kodak Guarantee assures you of total satisfaction beginning with the delivery of your copier, including a 24-hour 7-day hot line, a service history your doctor might envy, and a copier that grows new instead of old. Your Kodak representative has all the details.

Not all of us are intrepid explorers, but every Kodak copier representative is an expert at satisfying customers. Put us to the test. Call our Customer Satisfaction Center at 1 800 255-3434, Ext. 155.

THE ENDS OF THE EARTH COPIER GUARANTEE FROM KODAK

Kodak copiers. Ask any customer.

Kodak



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atellites like flowers to strangers. On one we
tronic greeting card and addressed it to infinity.
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CORPORATE ASSETS ARE ABOUT TO GO TO HEALTH.

This year alone, American companies will spend more than $10 billion on health care for their retirees.

But if the cost of retiree medical benefits is extrapolated for every *current* employee who has been promised them, the figure is a whopping $400 billion plus. In 1990 dollars.

Even more alarming, this situation is reaching crisis proportions.

The Financial Accounting Standards Board rightfully advocates that 100% of this future obligation be recognized as a corporate liability. And that will leave corporate America with some hard choices to make.

One option is simply to accept this liability and live with it. Some corporations, certainly, are strong enough to absorb a financial drain of this magnitude and continue with business as usual. But for many others, the situation is a lot more precarious. Some might even be affected to the point where liabilities exceed assets.

Another option is to eliminate retiree health benefits for all new hires. Many companies may indeed take this route. Unfortunately, this course of action will add untold millions of future retirees to the rolls of Medicare and Medicaid. And that's something we'll all have to pay for.

At ITT Hartford, we advocate pre-funding as the most responsible approach to retiree health care. But right now, pensions are the only significant retiree funds that are allowed to accumulate on a tax- advantaged basis. Retiree medical benefits are not afforded the same realistic tax advantages. That's fine as long as all we're paying for is current retirees. If we're being asked to recognize tomorrow's retiree health care costs today, however, the situation needs to be examined.

The Hartford doesn't think a company promise should have to become a company problem. And with the right kind of planning, it won't.

If you, your company, your civic organization, your industry group or your committee are interested in learning more about this issue, write to Chuck Clinton, Vice President, Asset Management Services A-1, Hartford Life Insurance Companies, P.O. Box 2999, Hartford, CT 06104-2999.

ITT HARTFORD

1990 ITT Hartford Insurance Group, Hartford, CT 06115

Marketing

uled just one major shooting session th year for client Lucky Stores Inc., fro which it's producing 6 to 10 ads. An extra commercials can be cobbled t gether by re-editing footage from exis ing spots—saving thousands in costs.

TURTLE AND HARE. There's another poss ble reason for going with straightfo ward ads: The lingering suspicion th high-concept ads just may not work th well. For example, Chiat/Day's ultra-i trusive Eveready bunny, who marche through ersatz commercials for soap an other products, won a clutch of industr awards. Eveready says the bunny ha also helped boost sales. But that hasn prevented Duracell Inc. from gainin market share with much simpler ads.

American Isuzu Motors Inc. won ple ty of recognition on the airwaves wit Joe Isuzu, its mendacious spokesma With his patently ludicrous claims abo Isuzu cars and trucks, the sleazy bu winning salesman thumbed his nose a convention. But Joe was better at sellin trucks than cars: While truck sales hav grown, car sales plummeted 77% in th first nine months of 1990 compared wit

Some shops are bucking the trend, claiming that only mor creative ads will pierce through the media clutter

the previous year. So, three months ag Isuzu put Joe out to pasture. Its ad now make head-to-head comparison with rival Toyota Motor Corp.

Many highly creative shops say the plan to resist the pressure. Their argu ment: With the proliferation of medi consumers are being bombarded b more marketing messages than ever. S the only way to break through the clu ter is with ever-more-creative ads. Eve some big agencies are betting on creati ity: Young & Rubicam Inc. recentl hired Helayne Spivak, a veteran of se eral hot shops, to be its top creativ director. Spivak, whose credentials in clude Club Med Inc.'s stylish campaign hopes to bring the creative ferment of small shop to staid Y&R. Says agenc President Joseph E. De Deo: "Durin good times, you can get away with med ocrity. During bad times, you can't."

De Deo may have a point. But as bud gets continue to tighten, advertising creative lights may have to face a toug reality: that hard times leave little roo for the soft sell.

By Mark Landler in New York, wit bureau reports

"I wish I could run as smoothly as my Acer."

PC Magazine was so impressed, it awarded
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I also knew I had lots of options with the
100/33. It has full Novell NetWare IPT
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compatibility.

With this flexibility, I can build the system
mpany needs and feel confident that all the
will fit.

As my company grows, I know that our Acer 1100/33 will grow with us. Eight slots, five storage bays, and up to 24 MB of memory give us lots of room to expand. And with Acer's 4/8/12 warranty program, we're fully covered with on-site and pickup service.

Speed, dependability, expandability. My Acer 1100/33 gives me time and peace of mind to concentrate on more important things. Like running.

Call 1-800-SEE-ACER to see what the power of the Acer 1100/33 can do for you.

You'll love how smoothly your business runs on an Acer.

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HOW THREE COMPANIES CUT LOOSE FROM DEBT

By converting it to equity, they escaped crushing interest—and freed up money to pursue growth

That good ol' debt just ain't what it used to be. The IOUs run up in the 1980s can be a burden in a soft economy. With debt costs eating up 35¢ of every $1 of operating earnings, or double 10 years ago, struggling companies are eager to swap debt for stock, which doesn't require interest payments. These three companies were able to swap early, whether because creditors loathed lengthy bankruptcy proceedings or because a strong brand name lured investors. Whatever the reason, all three bought more than just survival. They got room to grow.

SEAMAN FURNITURE: CUSHIONING A FALL

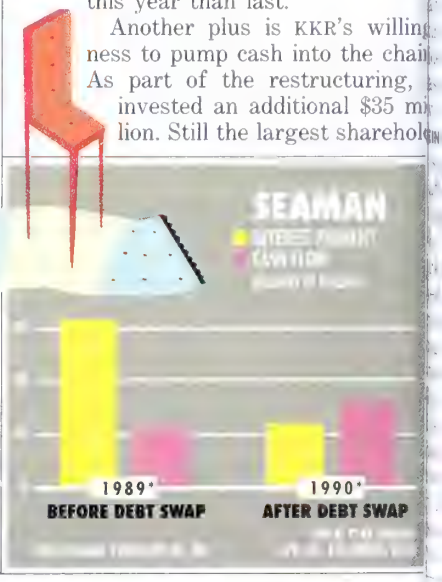
Boy, did Seaman Furniture Co. ever look good. When Kohlberg Kravis Roberts & Co. purchased an 80% chunk of the nation's No. 2 furniture retailer in 1988, its Northeast home turf was a delicious market. Seaman's had been averaging double-digit sales growth for the previous 10 years, so the $360 million purchase promised to give excellent returns. Oops. Nobody at KKR counted on the region's going into a slump—or Seaman's suffering a 4.4% sales drop within a year.

With cash flow covering only one-third of the $32 million in interest payments (chart), KKR had to do something. In November, 1989, KKR persuaded bondholders and bank lenders, led by Manufacturers Hanover Trust Co., to convert debt to half-ownership of Seaman's. To do this, KKR had to sacrifice a controlling share: its stake shrank to 33%.

ON THE MEND. Not everyone can do such an exchange. Seaman's had the advantage of a good name, so creditors were more confident of its prospects. Companies not so well regarded haven't gotten such breaks. Seaman's investors may eventually get their money back, if the company starts churning out strong profits again. But in Chapter 11, they'd have received only a fraction.

Already, there are signs that Seaman's is on the mend. Cash flow will cover interest expense for the fiscal year. More significantly, the retailer ha braked the revenue decline. For th quarter ended July 31, sales were up 1% That may sound unimpressive, but co sider that the region's economy is wors this year than last.

Another plus is KKR's willing ness to pump cash into the chai As part of the restructuring, invested an additional $35 mi lion. Still the largest shareholde



continues to run things. In Febru- KKR named Matthew D. Serra, er head of the Hartford-based G. department stores, as chief execu- replacing Morton Seaman, son of founder. The family keeps a 7% e in the company.

e lighter debt burden has given ıan's a second wind. Instead of ·ly enduring tough times, Sea- s is using the cash infusion to nd its scant presence in Con- cut and Pennsylvania. By 1993, ınts to add 22 outlets to its ex- g 36 stores. New CEO Serra says is the perfect opportunity to pick up p store rentals.

ill the plan work? Howard L. Da- vitz, a Manhattan retailing consul- gives Seaman's a fighting chance. company's sales formula—low s and heavy advertising—has done in the past. And its new financial cture will let it stick to what it vs best.

Larry Light, with Leah J. Nathans, in York

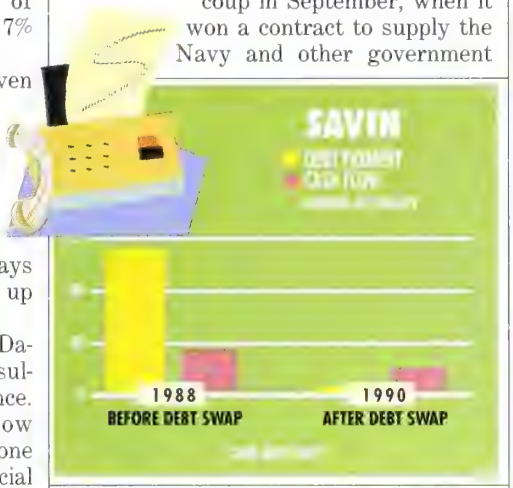
/IN: RESCUE AT E 11TH HOUR

wo years ago, a sense of gloom pervaded the headquarters of Sav- in Corp. The company, a longtime ibutor of others' copying machines, plunged into debt to start manufac- ıg its own. The gamble failed, to say least. With a cash flow dwarfed by million in principal and interest pay- ts, then-CEO David G. Sadler ordered s releases drawn up to announce a cruptcy filing. Recalls Sadler: "We the attorneys ready."

t the 11th hour, however, Sadler ed Savin back from the brink. He neered a $144 million swap of debt equity. This cut interest on long-term drastically, to $3.3 million this year rt). And much of the new equity is nd preferred stock, meaning that lends are paid in more shares, not in sury-draining cash. Long-term debt is a comfy $18 million.

ING GREEN. The exchange was no fun shareholders, but it enabled Savin to ıfter some new markets. Cleaning up balance sheet—together with Savin's ı visibility in the office-equipment ·ket—helped entice Netherlands- ed HCS Technology, which last March chased 55% of Savin's stock. Savin is ıg fresh HCS capital to increase pro- ions of its color copier line, a poten- ly lucrative market, especially in k-print shops. "The tough times are ind them," says consultant Louis E. vetsky, president of Industry Ana- Inc. in Rochester, N. Y. "Whenever ok at Savin, I see progress."

o kidding. Copier installations are running nearly 11% above last year's levels. And Chief Operating Officer William T. Smith expects an additional 20% increase in 1991. The company scored a coup in September, when it won a contract to supply the Navy and other government



agencies with 4,000 copy machines. Savin posted a heartening $419,000 in profits for the first six months of 1990, vs. an $802,000 loss for 1989's first half. Smith expects Savin to end 1990 firmly in the black—the company's first profitable year since 1988. The stock price, still languishing at well under $1 a share, shows Wall Street is skeptical, however.

Clearly, Savin still confronts big challenges. It has a meager 3% share of a copier market that industry analysts predict will stay flat through 1994. Savin sorely needs its newfound financial flexibility to ferret out new customers. Its new sales program for color copiers is a case in point. At the outset, Savin will provide the machines to copy shops free of charge, taking only a portion of what customers pay for duplicating. The bet is that this will entice merchants later to rent the machines outright. Smith says the program will generate up to $10 million annually in revenues in four years. How nice to have the financial self-confidence to dream up such bold ventures.

By Lisa Driscoll in Stamford, Conn.

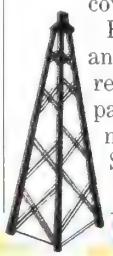
GLOBAL MARINE: PUMPED UP BY KUWAIT

During the oil boom of the early 1980s, Global Marine Inc. spent lavishly to transform an aging fleet of offshore drilling rigs into the most modern in the business. Then oil prices dropped as low as the ocean floor, and Global almost drowned in $1.3 billion of debt. The Houston driller filed for Chapter 11 in 1986.

Well-timed deleveraging, however, kept it alive for the turnaround in the oil business, which started even before the Mideast crisis. After three touch-and-go years, Global Chairman C. Russell Luigs persuaded the bankruptcy court and Global's creditors to O. K. a debt-for-equity exchange that pared debt by two-thirds, to $446 million. Now, interest costs no longer overwhelm cash flow (chart). Although Global must start repaying its outstanding debt in 1993, odds are good it'll be up to the task.

A manageable debt—and stonger revenues—have given Luigs the freedom to upgrade his rigs and hire crews. The company's spruced-up, state-of-the-art rigs are sought after, because they can handle many types of drilling.

PAINFUL RECOVERY. Result: Global is increasingly busy in the Gulf of Mexico and the North Sea. This year, all 27 of its rigs are operating—27 more than in 1987. Drillers make money by contracting with oil companies, who pay according to demand for the rigs. The average daily rate in the Gulf of Mexico these days is $26,000. That's half the early-1980s high, but a far cry from the mid-80s low of $8,000, which failed even to cover costs.



Recovery was painful. Luigs and other top executives had to relinquish ownership of the company to creditors. Management now holds a mere 5% of Global. Since the restructuring, the creditors have sold their stakes

to institutional investors, whose purchases ran the stock up from 2 a year ago to a high of 6⅝ after the invasion of Kuwait. The stock recently traded at about 5.

The profit outlook is propitious. Samuel Z. Albright, analyst at Howard, Weil, Labouisse, Friedrichs Inc., a securities firm in New Orleans, expects earnings per share to go as high as 20¢ next year, with a small profit turned in 1990's fourth quarter. That's compared with an expected loss of 32¢ for all of this year—and a minus 61¢ in 1989. Luigs is even more optimistic: He sees yearly cash flow increasing almost tenfold by 1992, from $49 million this year. Luigs would then make his long-planned killing. "We're not proud of how we got here," he says. But he'll take it.

By Mark Ivey in Houston

COMMODITIES

UNLOADING REDWOOD: THE PRICE OF LUMBER IS AT ITS LOWEST LEVEL IN A YEAR

A BLOW TO INFLATION'S SOLAR PLEXUS

Despite oil's rise, the weak economy has most commodities diving

In July, when Saddam Hussein started making noise about invading Kuwait, one of the first casualties appeared to be the battle against inflation. Commodity prices soared, reflected most alarmingly in the widely followed Commodity Research Bureau index of 21 commodities. And the CRB's ascent prompted growing fears that inflationary forces were again going to dictate the march of the economy.

Chalk one up for the fog of war: Just the opposite seems to be taking place. Sure, fueled by the huge jump in oil prices, the Producer Price Index was up a mind-numbing 1.6% in September, but such staples as lumber, sugar, wheat, corn, and orange juice are at or near their lows for the year. Gold and precious metals, whose rise along with oil propelled much of the CRB's increase in August and September, are now sliding.

LOG JAM. The message from the futures markets? We've got a weakening economy, saddled with more wood than needed to supply faltering housing demand and overabundant harvests sitting in silos. The inflation numbers will be trending down in the months ahead. Since the interest rate on long-term bonds reflects the outlook for inflation, that means that interest rates are likely to fall, providing some relief for the stock market.

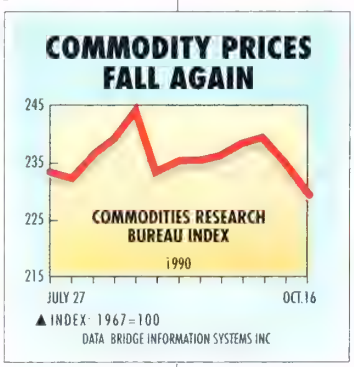
The realization that high oil prices weren't spilling over into other commodities hit the pits like a brick on Oct. 15, when the CRB index dropped 4.1 points to 232.10, its largest one-day decline since May 18, 1987. Several of the sagging components of the index show the weariness of the economy. The collapse of the housing market has lumber prices in the basement at about $5.57 per board foot, its lowest level in a year. And housing is unlikely to get healthy anytime soon. Weakness in homebuilding reflects not only the lack of consumer confidence but also the disastrous state of the savings and loan industry and the tight credit conditions of banks. According to David Rinehimer, an analyst at Shearson Lehman Brothers, housing starts could go as low as an annual rate of 1.03 million in December, down from the 1.2 million rate in the third quarter.

The slumping economy also is dragging down the prices of industrial metals, notes Frederick Demler, an analyst at Paine Webber Inc. Aluminum prices have fallen 10% in just three weeks and copper is down from $1.40 a pound under $1.20 over a similar period. Sou American producers are taking adva tage of any rally in copper prices unload bulging inventories. Platinu too,has been hammered, dropping $22. an ounce to $396 on Oct. 15, its lowe level in five years. It doesn't help th the Japanese, who favor platinum as investment vehicle, are shunning it b cause of economic troubles at home. T falloff in demand is even putting pre sure on cotton prices, down 20% sin July. And the rumored new buying fro China, which sent cotton rocketing ear er this year, hasn't materialized.

WHEAT SURPLUS. Huge supplies are d pressing agricultural prices. Corn pric are down from $3.05 a bushel in July $2.30. Unusually good weather durir July and August produced a bump crop and killed off a rally based in pa on the expectation that the U. S. wou extend trade credits to the Soviet Unio Ditto for wheat. Despite the problen that the Soviets are having with the harvest, wheat stockpiles are overflo ing throughout the world. Prices of th grain have collapsed to $2.75 a bush from $4.10 in the spring. Orange juice another commodity whose price is und pressure. Following last December freeze, the number of trees brought in production in the U. S. has grown, a the new crop from Brazil is way u Orange juice prices have fallen 3 since the beginning of the year, back prefreeze levels.

The good news on inflation does end there. Gold, the usual hedge again inflation, has behaved very tamely, ev with the Mideast on the brink of wa Back in the 1970s and through much the 1980s, the prices of gold and moved in lockstep. When oil hit $40 barrel in 1979, go prices also we through the roof, over $800 an ounc This time, gold pric did shoot up to $413 ounce on the heels the Kuwait invasio But since then, gold h slumped back to $3 an ounce and is not f above its five-year lo And silver is selling $4.14 an ounce, its lo est price in 16 years. True, the prices precious metals have been depressed the Russians selling gold to get ha currency. But more important, the go market is telling us that, unlike wh happened in the 1970s, the hike in prices is not about to bring inflati back in a big way.

By David Greising in Chica



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THE BANKS ARE RUNNING OUT OF RUNNING ROOM

For many, reserves aren't rising as fast as bad loans

A year ago, the nation's banks took a bold step to restore their credit soundness. By setting aside $8.5 billion in reserves against Third World debt, they hoped to conquer a bad-loan problem that had dogged them for years. It was costly. In the end, U. S. commercial banks lost some $744 million in 1989's third quarter. But banks went a long way toward bolstering confidence in their future.

There are few signs of such boldness now. Largely because of a softening commercial real estate market, bad loans are rising, and earnings are dismal. More worrisome: This time, many banks can't seem to build reserves fast enough to keep pace with the rising tide of bad loans. And with pressure from regulators to pump money into capital, many bankers seem reluctant to build reserves. "If capital were in plentiful supply, you would see some more forceful moves," says analyst Judah S. Kraushaar of Merrill Lynch & Co.

CITI'S BIND. Concern over reserve levels intensified on Oct. 16, when Citicorp reported its third-quarter earnings and triggered a one-point decline in its already battered stock, to 12¾. Earnings, at 56¢ a share, were 43% below a year earlier. But the most sobering news was that Citi's commercial nonperforming loans, excluding Third World debt, rose by $780 million from July to September. Sour real estate loans accounted for $573 million of the increase. Citi's commercial nonperformers now total a hefty $4.6 billion. Still, the bank boosted its loan-loss provision by only $82 million. The nation's largest bank now has only enough reserves to cover 39% of all its bad credits.

Citi isn't alone. Reserve coverage at many of the nation's banks has eroded steadily since 1989's third-quarter buildup. Reserves as a percentage of nonperforming loans at the nation's 50 largest banks stood at 104% at the end of June, compared with 137% in September, 1989, according to IBCA Inc., a bank credit-rating agency. In theory, that's enough to cover all bad loans. But individual banks vary. Citi's position is in contrast with J. P. Morgan & Co., which has reserves equivalent to more than twice the amount of its bad loans.

It's difficult to judge when a bank's reserves are inadequate. Even Wall Street analysts, who have been down on bank stocks for much of the year, are loath to criticize. And with good reason. It's not so hard for regulators or ban to identify obvious problems, usual loans that are 90 days behind in pa ments. The hard part is figuring o which loans soon will fall behind—eith temporarily or permanently. Real esta problems and the possibility of a rece sion have made such crystal-ball gazi particularly dicey right now.

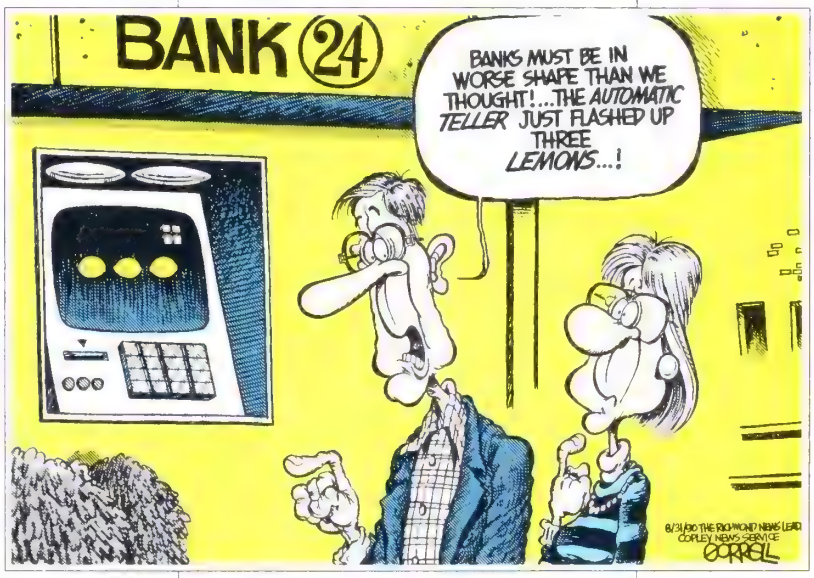
Moreover, not all nonperforming loa are equal. Stephen G. Pfeifer, an exar nation specialist at the Federal Depos Insurance Corp., says reserves are s by the severity of a specific loan's pro lems. "If an examiner classifies a lo substandard, the type of reserve for it significantly different than if he clas fied it doubtful or a loss," he says.

Consider Citicorp. The bank argu that its relatively high proportion problem loans represents a cautious at tude. Citicorp Executi Vice-President Thom E. Jones says th about $1 billion of t bank's $4.6 billion in d mestic nonperformi loans are up to da They were rated no performing early, Jon says, because the ba suspects problems m develop. "If you iden fy problems earl there's a better chan of getting your mon back," he says.

Still, reserves w have to be bolstered banks hope to overco their credit problem Most analysts a bankers expect the ec nomic environment to deteriorate in t months ahead. That's bound to jeopa dize many of the highly leveraged loa that banks made in the 1980s, as well consumer loans. Says economist Rob E. Litan of the Brookings Institution: suspect if the economy continues weaken, the perception will grow bank management that they might well face facts at the end year and take the hit then."

Wall Street is speculati Citi may do just that. Salom Brothers analyst Thomas Hanley says Citi will be forc to boost reserves by $1 billi to $1.5 billion in the four quarter. For now, Citicorp sa such a move is unlikely. But worsening economy and t prospect of more bad loa ahead may yet change its mi

By John Meehan in New Yo with Catherine Yang in Wa ington



WHERE RESERVE COVERAGE OF PROBLEM LOANS IS SLIPPING

Bank	Reserves as percent of nonperforming loans		Nonperforming assets as percent of loans	
	3Q 1989	3Q 1990	3Q 1989	3Q 1990
CHASE MANHATTAN	88%	70%	5.7%	6.2%
CHEMICAL	89	83	7.3	6.9
CITICORP	43	39	6.2	7.4
MANUFACTURERS HANOVER	94	78	8.2	6.9
BANK OF NEW YORK	133	76	3.5	4.2

DATA: IBCA INC.

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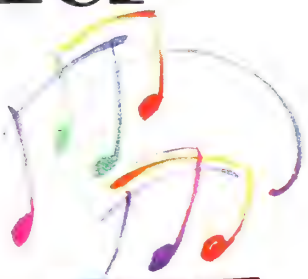

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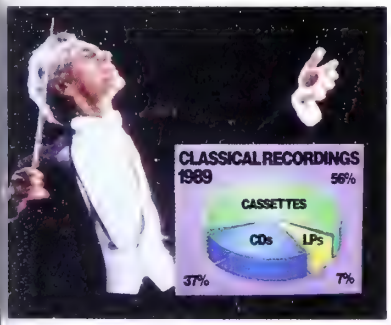

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BY GENE G. MARCIAL

ARE UNWELCOME GUESTS ABOUT TO CALL ON AVON?

Avon Products, the world's premier door-to-door marketer of beauty-care items, can't seem to put a pretty face on its shares. Avon has dived from more than 38 in June to 23—a low for the year. Although earnings, aided by cost-cutting and the increased productivity of sales reps, have been improving, most investors have ignored the stock.

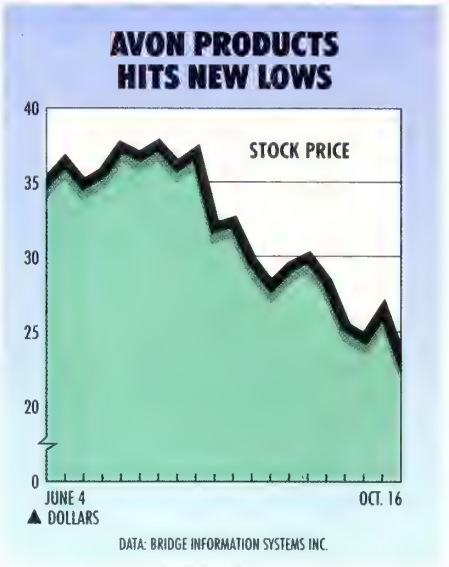
But not everyone. Whispers are that Chartwell Associates, which already controls 26.2%, is preparing to make a tender offer for at least 25% more of Avon at $35 a share. The Chartwell group includes Mary Kay Vice-Chairman John Rochon and other Mary Kay executives, real estate financier Tony Fisher, and Gordon Getty. Another big investor, the Robert Bass group, owns 6.2%. The Bass group may hook up with Chartwell when it makes a bid.

It became clear that Chartwell will make an offer, says one New York investment manager, when Tony Fisher and Marc Leland of the Getty group—Chartwell's two representatives on a special committee created by the Avon board—quit the committee on Oct. 3. That six-member panel was to explore ways to enhance shareholder value. But the Chartwell members say that after five months, the committee and Avon's management showed little desire to make the changes that would boost the stock price. Fisher and Leland did not resign from the Avon board, however—a tipoff that Chartwell may launch a bid for control.

WAR CHEST? One New York investment banker believes that Chartwell already has the cash to finance an offer for 25%, or 14.1 million shares, which, at $35 a share, would cost $494 million. And Chartwell is said to be lining up bank financing in case it decides to bid for more of the company. The most recent block of stock that Chartwell purchased—1.3 million shares from the Amway/Irwin Jacobs group on Aug. 8—cost $37.50 a share. One analyst says it's possible that if spurned, Chartwell may raise the bid price to $40 a share.

At its current depressed price, Avon is "unquestionably undervalued," says Lee Tawes, an analyst at Oppenheimer. He puts the stock's asset value at $42 a share based on a multiple of 6.5 times 1990 operating cash flow of $500 million, after deducting corporate debt of $575 million. He notes that Avon's Japanese unit, Avon Japan, which is on the block, could be worth $400 million.

Meanwhile, Avon's special committee, now composed of just four board members, including Chairman James Preston, will continue to seek ways to enhance shareholder value, says board member Joseph Rice. It hasn't ruled out, he adds, any course of action.



THAT SOUND MAY BE CORNING CRACKING

Never mind that stocks have already suffered a severe pounding. The market continues to be intolerant to any kind of disappointment. Just doubts that a company may fail to meet earnings expectations mean the stock will get beaten down. That's what some pros think could happen to Corning, even though its shares have already dropped because of third-quarter results.

Some pros worry that Corning, formerly Corning Glass Works, may fail to meet not only its earnings targets for this year but those of next year as well. Most analysts expect this year's earnings to match 1989's $2.79 a share, with next year's profit topping $3. But some big investors are pessimistic.

"Those who are expecting to see such figures will be terribly disappointed," says Jerome Ballan, a senior vice-president at Fahnestock's Connor-Ballan unit. He thinks Corning "will be lucky" to earn even $2.60 this year or next because it will be hurt by a slumping economy. The company produces a variety of products, from specialty glass used in autos to telecommunications components to consumer housewares. But despite its diversification, says Ballan, "a significant part of earnings still come from cyclical markets."

Corning's stock has been on the skids since May, when it traded as high as 53. It slipped from 41 to 37 after an Oct. 16 report that third-quarter earnings came in at $1.10 a share, vs. 80¢ a year before. That 30¢ gain, notes Ballan, included a onetime boost of the same amount. The company had warned a couple of weeks before that earnings would be flat, but the stock slid anyway. And it may continue to slide if investors such as Ballan keep bailing out. A Corning spokesman concedes that if the economy slides into a recession, 1990 and '91 could be flat.

AT FERRO, IT'S 'MOVE OVER, MARIO'

When a block of over 500,000 shares of Ferro traded on the Big Board on Oct. 4, excitement about the stock surged. Ferro has been a takeover target since investment guru Mario Gabelli started accumulating shares last year. So the sale of that big stake sparked many takeover players into buying, which pushed the stock to 20 from 18¾.

The day before the block traded, New York-based Gabelli & Co. raised its stake in this worldwide maker of specialty materials such as coatings, ceramics, and plastics to 6.4% from 5%. But it wasn't the Gabelli group that bought those half-million shares. According to one floor trader, the buyer was Jon Huntsman, chairman of Huntsman Chemical, who had been scouting for Ferro shares for some time. He filed notice in June with the Federal Trade Commission that he intends to buy up to 15% of Ferro. Huntsman is expected to file a 13D soon showing a holding of 5% or more.

Gabelli and Huntsman aren't the only big players in Ferro. Phil Frost, the chairman of Ivax, a specialty-chemical and pharmaceutical company, has also notified the FTC that he plans to buy at least 15% of Ferro. He already owns 7.7%. Analysts put Ferro's breakup value at $45 a share, and the stock did trade as high as 41 in '89. One attraction: Ferro's European chemical operations, which have been bolstered by last year's acquisition of a large plant in France—a bet on Europe 1992.

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SHANGRI-LA IS SHOWING SIGNS OF A SLOWDOWN

This time, the Pacific Northwest can better weather a recession

Just a year ago, the Pacific Northwest was the hot region. Booming demand for lumber and airplanes, a rebound in exports, and sprouting high-tech ventures were boosting the economy. Drawn by natural beauty and an unstressful lifestyle, newcomers swarmed in, looking for a new Shangri-la to replace California. By late last year, owing to traffic congestion, soaring home prices, and overburdened city services, some Seattlites seemed ready to barricade the city. Washington's ballot even carries a slow-growth initiative this year.

Now, the cooling economy may do the job for them—even though the migrants are still arriving by the thousands. Much of the nation seems to be sliding into recession, and the economies of Washington, Oregon, and Idaho are slowing, too. Economists doubt they will experience an actual decline in output, as in previous nationwide recessions. But instead of growing at a rapid 5% or so a year, payroll employment is likely to grow at a much more modest 1% to 2% for the next couple of years, according to Beth Burnham Mace, an economist at DRI/McGraw-Hill.

'MORE RESILIENT.' Signs of a slowdown abound. Although Idaho is still growing rapidly, both Washington and Oregon have seen a sharp deceleration in employment growth this year. Now, Seattle's once-sizzling real estate market is cooling, with local realtors reporting that housing prices are off about 10% in 1990.

In past nationwide recessions, especially those in 1973-75 and 1981-82, the Northwest was hit far harder than other parts of the country. This time, the Northwest has cushions to soften the fall. One is Boeing Co.'s $100 billion backlog of orders, which should keep its factories running at top speed for four years. Then, too, a huge volume of trade passes through the region's ports and airports on the way to or from Asia, and U.S. exports may continue to grow. Finally, the Northwest now has an impressive array of growing high-tech businesses, especially in software. Microsoft Corp., for instance, plans to hire 1,300 in the Seattle area by next July. "The [region's] economy today is a lot healthier than in the late 1970s. It is more resilient to outside shock," says Washington State's chief economist, Chang Mook Sohn.

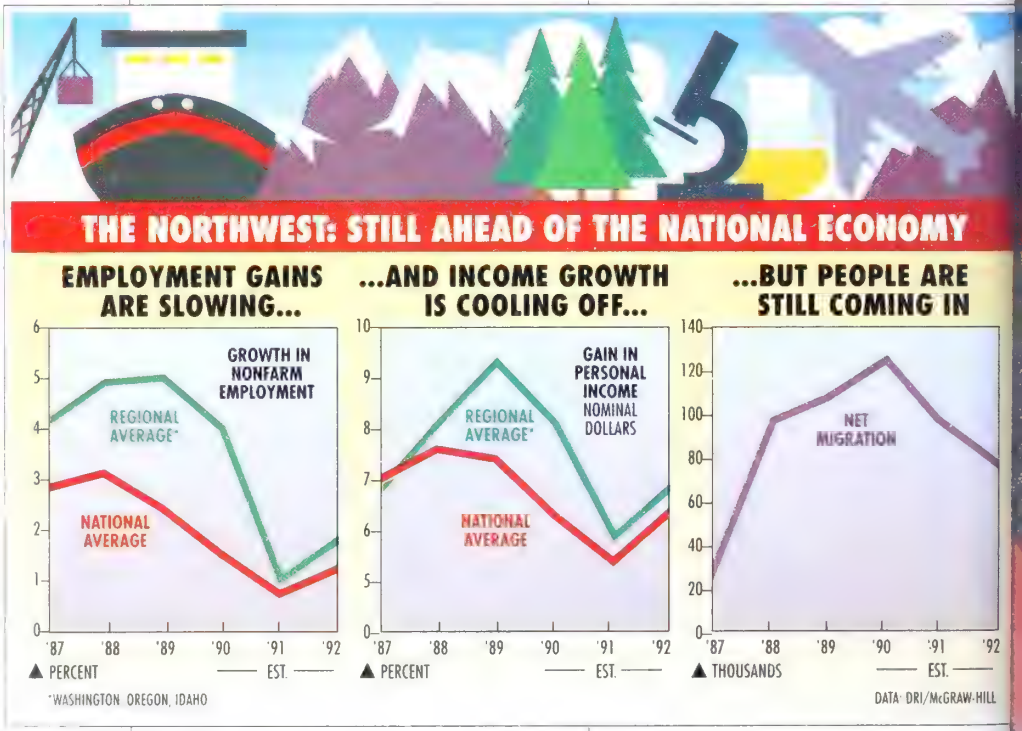
But even before the Persian Gulf shock, slower growth was showing up in the figures for monthly employment, housing permits, and retail sales. Employers such as Tektronix Inc. and National Semiconductor Corp. have been laying off workers. Construction is slowing. And the forest-products industry, after two years of healthy export-oriented growth, is slipping into a major slump.

The region's largest employer, Boeing, added 50,000 jobs in the past five years and is slated to cut back employment by about 5,500 jobs this year. Although Boeing is stepping up production, it is doing so with fewer workers. Boeing's recent $22 billion order from United Airlines Inc. should ensure a soft landing for the Seattle area. It allows Boeing to launch the new 777 airplane, which will employ 10,000 by late 1993, up from 3,000 working on development now. Many of those workers, however, are likely to be shifted from Boeing's shrinking military division, especially if Congress eliminates the B-2 bomber program, which employs 10,000 in Seattle.

LOGGING LAYOFFS. Directly and indirectly, Boeing's expansion is estimated by local economists to have accounted for 37% of the 500,000 new jobs created in the state since 1983. With employment at the company likely to be stable rather than growing over the next few years, the region will lose that important boost.

The lumber industry is a much more immediate worry. It's not yet known how many jobs are likely to be lost as a result of the decision in June to declare the spotted owl an endangered species. But that decision, designed to protect old-growth forests from the loggers' chains, is certain to cut back sharply the timber harvest on federal lands in the Northwest.

Logs from state lands will be diverted from export markets to local lumber mills, but the industry may still have to lay off as many as half its workers. According to a recent survey of mill managers and logging operators by Moss Adams, an accounting firm, a ha



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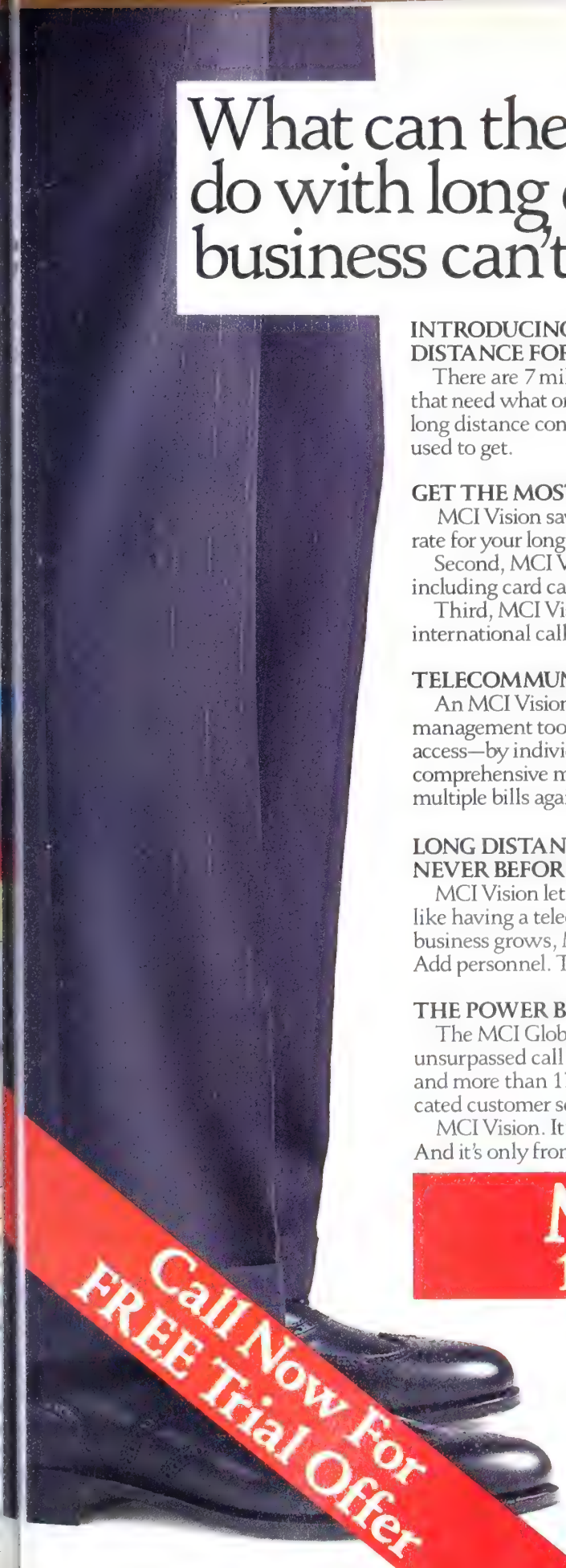

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vest reduction of 60% would lead to a loss of 48,000 direct jobs and an additional 64,000 jobs indirectly associated with the industry.

Compounding the problem, the national housing recession is depressing demand for wood. Timber prices have collapsed since June. Oregon will be hardest hit. Unlike Washington, which has more diversity, Oregon still relies heavily on forest products. So far this year, Oregon has lost more than 4,000 jobs in logging, sawmills, and plywood mills.

The recent boom years widened the gap between the prosperous urban areas surrounding Seattle and Portland and the lagging little towns and cities further inland. City-based environmentalists fought hard to save the ancient forests, while small-town loggers, worried about their jobs, reacted with hostile placards threatening to shoot spotted owls. Japanese investment in cattle ranches, fish processing, and paper mills has helped some towns, but they cannot keep up with the big cities.

HIGH-TECH HELP. State officials, who once seemed more worried about rapid growth in the region's coastal cities, are turning their attention to less developed areas. "Some parts of the state that have never shared in the prosperity feel put out," says Paul S. Isaki, director of Washington State's Trade & Economic Development Dept. "They feel that the state is not helping them enough." Isaki is targeting food processing, selected wood products, biotech, software, advanced instruments, integrated-circuit wafers, and waste management and disposal technology.

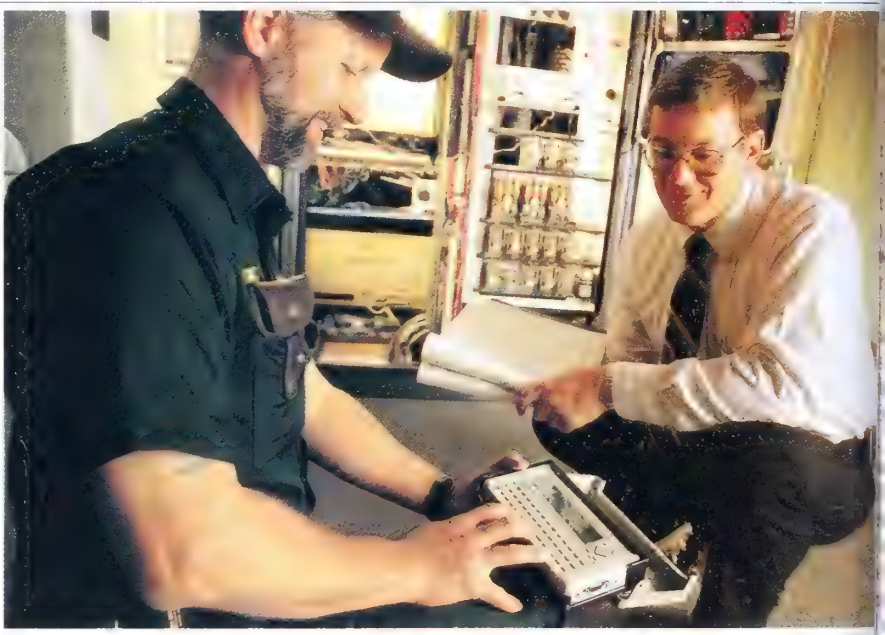
Today, Washington's software industry, which accounted for only 600 in 1980, employs about 7,000, and the number is rising. Tiny biotechnology companies have sprung up around the University of Washington's Fred Hutchinson Cancer Research Center. Hundreds of small computer-related and biotech companies have set up shop in Beaverton, outside Portland. Hewlett-Packard Co. and Micron Technology Inc. are expanding in Boise, Idaho. And Sharp Corp. and other electronics companies have big plants in Vancouver, Wash.

Diversification will help, but for those accustomed to boom times, growth will seem pokey indeed. Other residents, eager to preserve some of the serenity that made the Northwest so appealing, may find slow growth to be a blessing. A slowdown will buy local officials time to address the problems that rapid growth brought to Seattle, Portland, and Boise—and give them a chance to steer investment toward the weaker areas of the region, so they aren't left behind when the economy revives.

By Dori Jones Yang in Seattle

MOTOROLA: HOW MUCH WILL IT COST TO STAY NO. 1?

The wireless boom has it spending heavily—as rivals stake claim



TESTS OF THE MOTOROLA-IBM HANDHELD TERMINAL ARE BEING CONDUCTED BY OTIS ELEVATOR

If there has ever been a company in the right place at the right time, you'd think it would be Motorola. The world is clamoring for wireless communications, and Motorola Inc. happens to have dominant positions in cellular phones, pagers, and two-way radios. While other major corporations were reporting third-quarter earnings that confirmed recession fears, on Oct. 9 Motorola registered a healthy 14.6% jump in net profits. Yet Wall Street dumped the stock that day, lopping off $7, or 12% of its value. Since mid-July, the high-flying shares have plunged roughly 40%, double the decline of the market.

What's wrong? Fear of the unknown. Wall Street is suddenly worried that the Schaumburg (Ill.) company can't keep its perch. Nearly every wireless communications product that put it on top needs to be replaced in the next few years. That will require Motorola to continue plowing huge sums into R&D. It will also provide fresh opportunities for ever-stronger competitors such as Sweden's L. M. Ericsson, Canada's Northern Telecom, Germany's Siemens, Japan's NEC and Fujitsu, and American Telephone & Telegraph. Indeed, investors were stunned because unexpectedly heavy development costs in the third quarter reduced operating earnings in the two divisions that make wireless products, dragging down corporate profits. Company executives say they need to keep spending: "What's at stake here is leadership," says Chairman George M. Fisher.

LOST BID. Staying No. 1 would almost guarantee Motorola enormous returns. Worldwide sales of wireless products and services are expected to triple to $ billion in 1995 from just over $10 billion last year, estimates Gartner Group Inc., a market researcher. As the boom takes hold, wireless communications will increasingly overshadow semiconductors at Motorola. Wireless should account for 85% of pretax operating profits and 6 of sales in 1995, up from about 78% and 55%, respectively, this year, estimates Anthony G. Langham, vice-president for County NatWest Inc.

But the wireless market is moving quickly—and in some cases away from Motorola. Take the kind of private two-way radios used by police, taxicabs, and the military. Motorola has half the $ billion market. But Gartner expects it

ink to $440 million by 1995 as two-
radios are replaced by cellular
nes and shared two-way networks.
orola is in both markets but is un-
ly to match its current 50% share.
company has quietly begun laying
700 workers in two-way radio.
ngs are tough in cellular, too: In ear-
October, Motorola lost a key $100 mil-
bid to upgrade the New York-New
ey cellular network that it installed
McCaw Cellular Communications
The job went to rival Ericsson GE
ile Communications, an Ericsson and
eral Electric Co. joint venture.
s the early leader in wireless, Motor-
is bound to lose some of its enor-
us market share as the industry
hrooms. Already its stake in the
. wireless market has fallen to
ghly half from four-fifths in the past
ade, according to International Re-
rce Development Inc., a New Canaan
n.) market researcher.

'-FLYERS. To keep market-share ero-
to a minimum, the company is jump-
into new wireless markets as fast as
n. This year, it has launched 10 wire-
businesses and started operating
ile services instead of just manufac-
ng gear for them. Ardis, for exam-
is a joint venture with IBM that plans
ell handheld data terminals for field
f. The system, conceived for IBM
nicians six years ago, is being tested
ome 25 companies, including Sears,
buck & Co. and New York Life In-
nce Co. Otis Elevator Inc. mechanics
testing Ardis' terminals in Chicago.
otorola's most exotic wireless proj-
s Iridium, a system of 77 low-flying
llites intended to provide mobile
ne service to any spot on earth. It's
duled to go into service in 1996—if
ners can be found to share the more
$2 billion cost. On Oct. 23, the com-
r is set to unveil plans to bring wire-
communications indoors with a radio
ork for linking computers. It's also
cing on a wireless office phone sys-
And its new CoveragePlus service
esigned to help truck dispatchers
in touch with their fleets through a
onal two-way radio network.
creasingly, the company is looking
seas and teaming with partners to
nd its wireless empire. It has won
racts to build new digital cellular
ne systems—with far greater capaci-
an today's analog setups—in four
pean nations, including Germany
Spain. Japan chose Motorola's de-
as the standard for its digital cellu-
system. And Motorola is becoming
perator of wireless services through
rity shares in cellular systems in
el, Hong Kong, Mexico, and Argenti-
t owns paging services in Australia,
ada, Israel, and Puerto Rico.
ter 62 years in wireless communica-
tions, Motorola has accumulated the technological knowhow that attracts partners around the globe. "Motorola's radio expertise is second to none," asserts John Carrington, managing director of a subsidiary of Britain's Cable & Wireless PLC, which has teamed up with Motorola. With C&W, the U.S. company owns minority stakes in two new wireless phone systems and will supply equipment for both.

Scoring a lot of hits with Motorola's new spray of technology bullets won't be easy, however. First, it could stretch the company too thin and divert critically important funding from its chip unit. And new businesses such as Iridium may not pay off in this decade. With such investments in mind, analysts have cut earnings estimates about 10% in recent months to $4.45 a share for 1990 and $5.29 a share for 1991, according to Institutional Brokers Estimate System.

Most worrisome for the long term: a growing mass market for wireless communications plays to the strength of Japan's electronics giants. "Motorola is ill-equipped to compete with large consumer-electronics [and communications] manufacturers... who can get volume production and design economies," argues Stuart Lipoff, Arthur D. Little Inc.'s vice-president for advanced electronics technology.

While Motorola has been unusually successful in selling cellular phones and beepers in Japan, the Japanese have been even more successful in the U.S. Combined, Japanese companies have more than 50% of the U.S. cellular phone market, vs. Motorola's 20%, estimates Michael Jeremy of Baring Securities in Tokyo. And that's just the start. Fujitsu is hard at work on wireless PC networks, while Kokusai Electric Co. is working on wireless stock-display terminals for crowded trading rooms.

Motorola also runs the risk of alienating some customers as it diversifies into running wireless systems. New York-based Millicom Inc. says it probably will not buy equipment from Motorola to build the personal communications networks, a new kind of cellular, it plans for Orlando and Houston next year. One reason: The two companies belong to competing consortiums running PCN systems in Britain, says Chairman J. Shelby Bryan. "Customers don't like to see you as a competitor," warns Ake Lundqvist, president and chief executive of Ericsson GE Mobile Communications.

WORLDLY. Fisher dismisses the sudden rash of doomsaying. He insists that Motorola can separate its roles as supplier and competitor and will avoid overreaching by enlisting partners. In addition to IBM and Cable & Wireless, Motorola has partners ranging from the Irish phone company to Hong Kong's Hutchison Whampoa Ltd. "We aren't so brazen as to think we can do it all alone," Fisher says. And even as competition mounts, Motorola has formidable strengths: decades in radio technology, the No. 4 semiconductor operation in the world, and experience in dealing with governments around the world—an asset when new wireless services require allocation of scarce radio spectrum.

Fisher remains confident that the company will prevail in the long run. He points to Motorola's investment in the first generation of cellular: As the company pumped in $100 million over 10 years, critics on Wall Street and elsewhere urged it to abandon the project. But Motorola's doggedness paid off. It expects $2 billion in cellular sales this year. Now, with the stakes and investments rising, Fisher will need that kind of grit—and more—to make his newest wireless initiatives fly.

By Lois Therrien in Chicago, with Peter Coy in New York and Neil Gross in Tokyo

MOTOROLA IS HOT IN WIRELESS...

CELLULAR

In the $5 billion world market, Motorola is No. 1 in cellular phones and No. 2 to Sweden's L.M. Ericsson in switches and other gear. In portable phones, Japan's coming on strong

PAGING

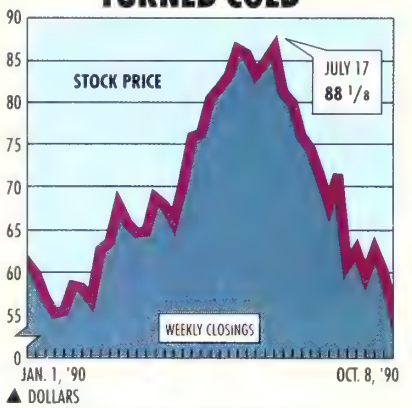
Motorola is No. 1, with 50% of the fast-growing $1.2 billion worldwide market for beepers. Also operates paging systems abroad

LAND MOBILE

Motorola is No. 1, with 50% of the $4 billion world market, including two-way radios used by police and fire departments. But sales are shrinking

DATA: COUNTY NATWEST INC.

...BUT INVESTORS HAVE TURNED COLD



DATA: BRIDGE INFORMATION SYSTEMS INC.

WILL THIS $150 MILLION BRAINCHILD BE AN ORPHAN?

The Open Software Foundation's big backers are holding back

It was calculated to be a watershed for the computer industry. In May, 1988, IBM Chairman John F. Akers, Digital Equipment President Kenneth H. Olsen, and Hewlett-Packard President John A. Young—along with heads of four other computer makers—stood together on a New York stage to launch the Open Software Foundation. Their unprecedented effort was aimed at seizing control of the so-called open systems movement from American Telephone & Telegraph Co. They plunked down $100 million in seed money and vowed that their operating system would challenge AT&T's Unix as the basic software for open systems.

Their brainchild, OSF/1, will finally hit the market on Oct. 23—complete with key features that AT&T's Unix won't have until 1991. But it's lacking the ingredient that made the OSF a credible threat in the first place: the backing of the industry giants that paid for it.

NO SALE. Despite the solidarity that the OSF's founders once exuded, only two—DEC and France's Groupe Bull—actually plan to use OSF/1 on all their open systems next year. IBM says it will offer OSF/1 only as one of three operating systems—the basic software that runs a computer—for its Personal System/2s. Big Blue will continue selling its own brand of Unix on its high-powered workstations until at least 1992. Hewlett-Packard Co., which last year acquired fellow OSF founder Apollo Computer Inc., will sell AT&T's Unix on all but one of its four workstation lines for now. And Siemens Nixdorf Informationssysteme, formed by the merger of the OSF's two German sponsors, will rely entirely on AT&T for at least two more years.

Big customers also seem uninterested. McDonald's Corp. Director of Systems Development John R. Ozsvath says he sees no reason to switch from AT&T's Unix. The same holds at Hyatt Corp., says Senior Vice-President John W. Biggs. As a result, the unveiling of OSF/1 "is a nonevent," says Julie A. Rodwin, an analyst at market researcher InfoCorp.

It wasn't supposed to be that way. The OSF proposed to write its operating system within 18 months—complete with advances to leapfrog AT&T's Unix. That was important because the group came together out of frustration over the way AT&T and its collaborator, Sun Microsystems Inc., were managing Unix. The OSF group mainly feared that the two companies were making sure AT&T's Unix System V would run better on Sun machines than on other brands.

The OSF's plans began to unravel when IBM fell behind in delivering what was to have been the "kernel" for OSF/1. The delivery date slipped one full year when the group decided to r place IBM's software with a Unix varia developed at Carnegie Mellon Univers ty. That blunted its edge against AT& which now promises to have OSF/1 most advanced feature, a way to contr multiprocessor computers, in 1991. As result, "OSF/1 and Unix System V a not that different," says John Paul, Siemens Nixdorf executive vice-pres dent and former OSF development hea

OSF officials contend that they will b vindicated. OSF President David To says that OSF/1 and other OSF packag will serve as proof that competitors c work toward common goals. And, h says, OSF programs will sell well enou to cover his $45 million annual budget b 1993. If they don't, the OSF could loo like an embarrassment. "The OSF wa probably the best-funded sta up in computer industry hist ry," says Michael Gutman, former Apollo vice-presidei who helped conceive the grou After 1992, the foundation ma survive, but perhaps only the largesse of its backers, wh will have kicked in $150 millio by that time.

SIDE EFFECTS. For it to do a l better, its sponsors would ha to step up their commitment selling open systems in gene al—and speed their adoption OSF/1. But IBM and other m jor suppliers still get most their revenues from more pro itable, proprietary system Even HP, the leading Unix se er among OSF sponsors, ge only one-third of its comput sales from Unix systems. S by 1994, estimates InfoCorp Rodwin, OSF sponsors will st only account for less than 20 of all open systems sales.

Still, even if the OSF fal short of its original goals, may leave a lasting imprin The formation of the OSF force AT&T to assure other comput makers that it wouldn't tak Unix System V in a proprieta direction. AT&T formed its ow industry coalition, Unix Internation Inc., and its members—including Unisy Corp. and NCR Corp.—now have inpu into how new versions of Unix w evolve. Gutman, who is no longer i volved in OSF, continues to call the pro ect "one of the most important events recent computer industry history." Ma be, but not for the reasons that g Akers, Olsen, and the other industry e ecutives to back it in the first place.

By Gary McWilliams in Cambridg Mass., with Evan I. Schwartz in New Yo

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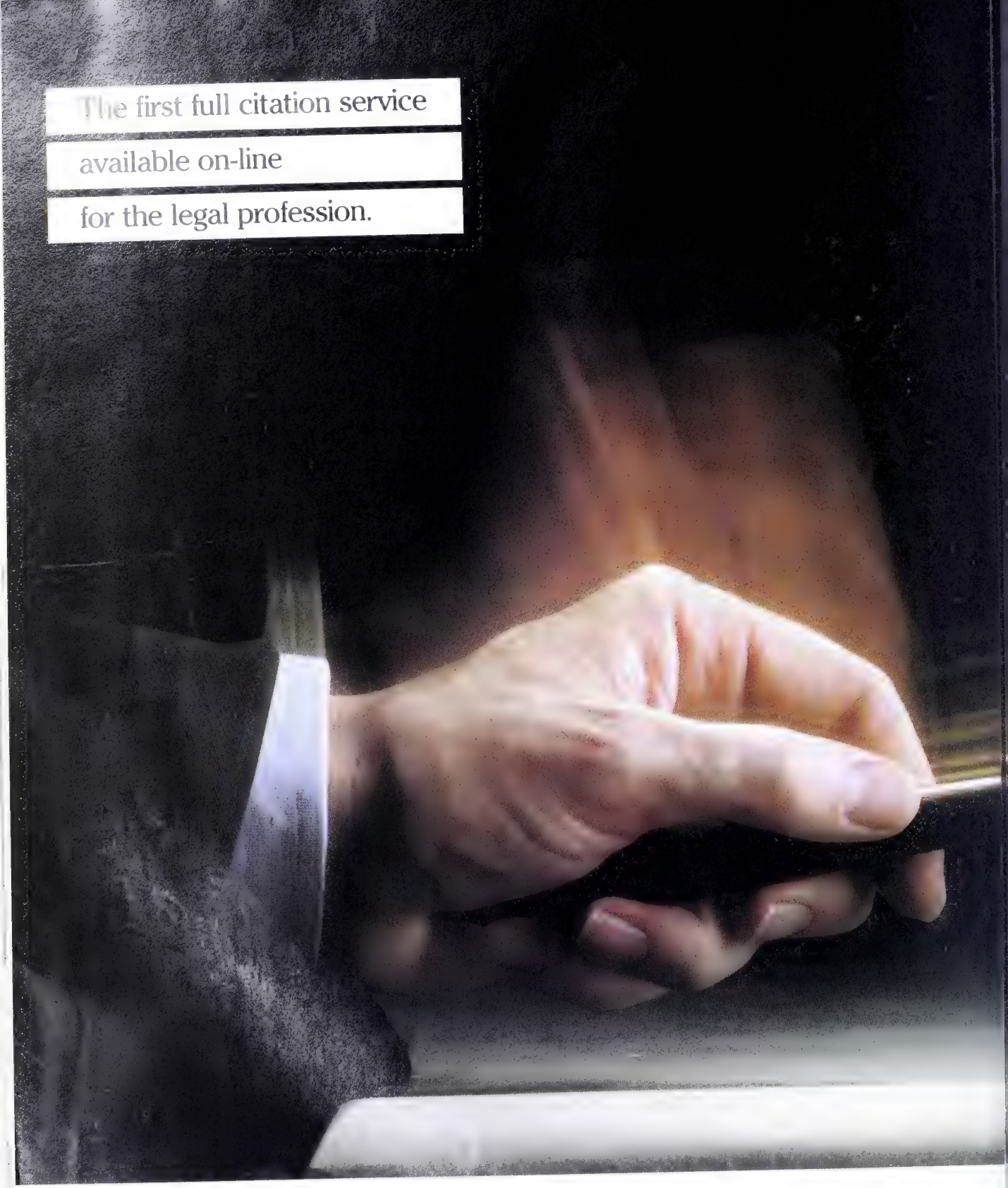

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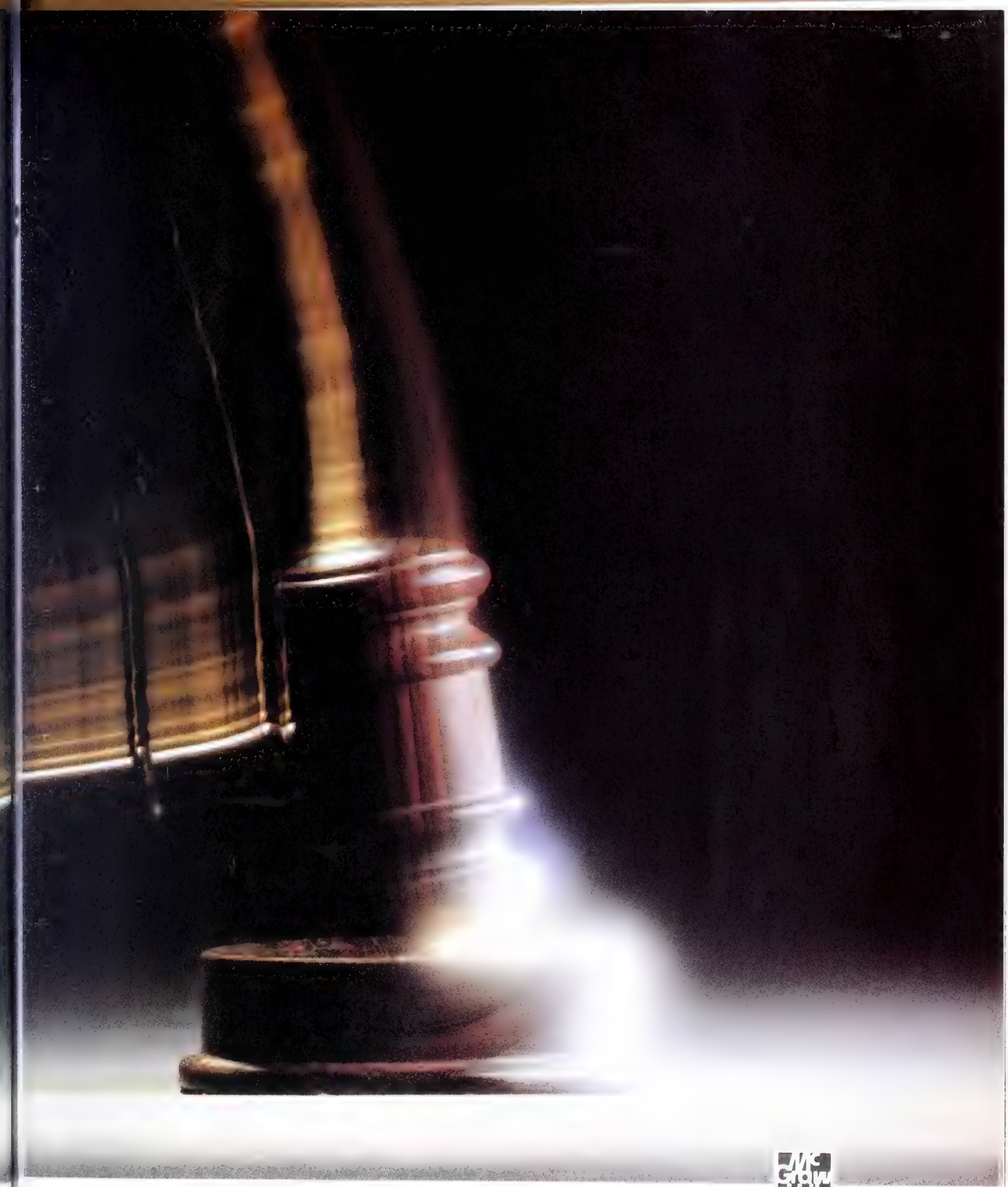

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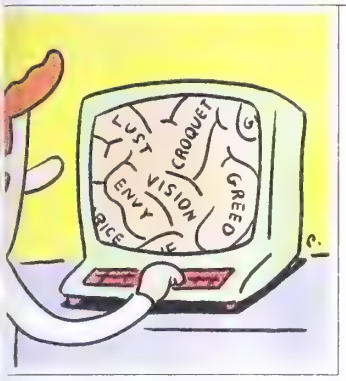
Developments to Watch

EDITED BY WILLIAM D. MARBACH

IN THE WORKS: A COMPLETE MAP OF THE BRAIN



It's a bit like 16th century geographers trying to map the New World. With sophisticated imaging techniques, scientists have been identifying specific brain areas responsible for everything from constructing sentences to wiggling a toe. Now, Johns Hopkins University researchers want to gather this information into a single computer data base. The goal: create a map of the entire human mind.

The brainchild of Peter T. Fox, a radiologist at Hopkins' ind/Brain Institute, the computer map will help researchers arn quickly which behaviors have already been associated th particular spots in the brain, and vice versa. In addition, alyzing the data together should reveal new patterns. And ysicians will be able to use the data base to predict which nctions may be lost because of stroke or other brain injuries.

HESE CHIPS WILL GIVE LAPTOPS IORE OOMPH IN LESS SPACE

or U. S. chipmakers, one of the hottest markets these days is the portable computer. Intel Corp. and Advanced Micro vices Inc. have unveiled new microprocessors that will make easier for computer companies to build smaller, lighter, and re powerful portable PCs.

MD's new Am286ZX and Am286LX chips are space-saving ostitutes for the 80286 microprocessor now used in most tables. Intel's new 386SL and companion 82360SL are based the more powerful 80386 microprocessor. Intel says the ps will extend a portable's battery life by 50% and reduce cuit-board size by 40%. The company introduced the chips in pan, which dominates the portable computer market.

ntel also is offering new chips that might replace disk ves in portables. The Flash Memory Card has erasable mory chips that can be plugged into a PC and removed like ppy disks. That would mean a big weight savings—and ch longer battery life. A 1-megabyte card will cost $298, l a 4-megabyte version runs $1,198, but Intel says the price l drop eventually to $1 per megabyte. Rivals such as West- Digital Corp. are working on similar chips.

CANNING THE BODY OR TROUBLESOME TISSUES

naging techniques, such as X-ray computer tomography nd magnetic resonance imaging, can be life-saving diagnos- tools. They reveal such structural anomalies as inflamed od vessels or tumors. But imagine peering directly into the chemical changes in living tissue. That's what Tohoku Uni- sity Professor Humio Inaba wants to do, using a new hnique he calls optical computer tomography.

naba's system uses weak laser pulses passed through liv- tissue. Light waves in the visible and the near-infrared ge are absorbed or scattered as they encounter different chemicals, such as hormones and enzymes. When the laser scans a band just 10 to 20 cells wide, researchers get a precise readout of the compounds in the tissue. That could help in the early detection of malignant tumors, for example, which cause the secretion of enzymes not usually found in healthy cells.

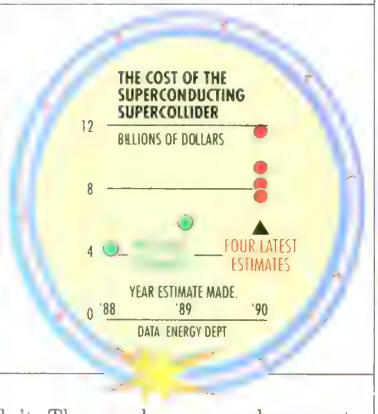
Scanning the entire body would be costly and time-consuming. But the system could supplement other approaches. For example, Inaba envisions using portable laser-tomography machines in ambulances to help assess internal injuries. Commercial prototypes may be ready within four years.

WILL SCIENCE FILL IN THE MISSING GENETIC LINKS?

Scarcely a week passes without a new advance in genetic research. Now, researchers at Tokyo's Cancer Institute have discovered that the chromosomes of tumor cells in women with breast cancer are missing four different pieces. One of the missing segments seems to be associated with an especially malignant form of the malady. Once researchers develop a test to search for the missing gene, says biochemist Yusuke Nakamura, physicians can make better predictions about the course of the disease and tailor their treatments accordingly.

Meanwhile, researchers at Baylor College of Medicine in Houston report progress that may lead to a cure for a lethal genetic disease. One baby in about 30,000 is born with an illness known as ornithine transcarbamylase deficiency, in which a defective enzyme can't clear ammonia from the body. Stephen N. Jones and co-workers inserted the human gene for the enzyme into embryos of mice with the same genetic ailment. The scientists discovered that cells in the animals' small intestines then made the correct enzyme. That suggests that it might be possible to cure human victims by slipping the gene directly into intestinal cells.

THE SUPERCOLLIDER'S PRICE TAG IS MAKING ENERGY BLUSH



Guessing how much the superconducting supercollider will cost is one of the sideshows to the budget extravaganza now playing in Washington. When plans for the Energy Dept.'s huge particle accelerator in Waxahachie, Tex., were unveiled back in 1988, the cost was pegged at $4.4 billion. It has been rising ever since. On Aug. 17, Energy was supposed to unveil a new estimate based on actual design plans. It didn't. The number was subsequently promised by Sept. 7. But Energy is still keeping mum.

One reason for the delay, say congressional sources, is the political folly of announcing a massive cost increase now. Another is that new estimates vary widely. The contractor says $7.8 billion; the department's Office of Energy Research estimates $8.3 billion; an Energy panel of physicists says $8.9 billion. And according to *Inside Energy,* a newsletter, Energy's Independent Cost Estimating Group says $11.7 billion. Once Energy releases its estimate, Representative Robert A. Roe (D-N. J.) and others on the House Science, Space & Technology Committee plan to grill Energy officials to find out if this new number is any more credible than previous ones.

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THE FIX-IT DOCTOR WITH A ROUGH BEDSIDE MANNER

Brash Stephen Pistner is making heads roll at bankrupt Ames

In recent years, the annual Ames managers' meeting has been a real blowout. Held at a fancy resort in the Catskills, it featured multiple cocktail parties, excellent food, and plenty of golf and tennis. But that was then. This summer, newly installed Chief Executive Stephen L. Pistner rented a conference room in the Cromwell (Conn.) Holiday Inn, where the discount retailer's executives dined on routine roast beef and mixed greens. Sorry, no booze. Managers thirsting for something other than water had to run down to the hallway Coke machine.

Pistner's frugality is understandable. Choked with debt, Ames Department Stores Inc. filed for Chapter 11 bankruptcy protection in April, and Pistner was brought in to clean up. Brash, restless, and often impetuous, he quit as president of the McCrory five-and-dime chain in 1988 and spent the past two years collecting art and working on a small Soviet retail venture. But he has a track record in the executive suite: Before McCrory Corp., he directed turnarounds at Dayton-Hudson's Target Stores and Montgomery Ward. In both cases he cut costs drastically, brought in new managers, and developed fresh retailing strategies. At Ward, for example, he made in-store departments much more autonomous and customer-sensitive.

FINAL STRAW. Pistner, 58, calls Ames "the worst pressurized mess you can conceive of." The $5 billion-a-year discount retailer expanded too quickly, just when the economy began to sour. The final straw: its $800 million acquisition of the troubled Zayre Corp. chain. After losing $228 million last year, Ames lost $583 million in this year's first half. When Pistner arrived in April, the company was about to default on its debt and vendors had stopped shipping.

Cutbacks are the order of the day, but Pistner (pronounced PIES-ner) refuses to scrimp on the CEO's salary. He landed a compensation package worth $9 million over three years. He promises to prove he's worth it by pulling Ames out of Chapter 11 within two years. But this job is like nothing he's ever faced. Under the watchful eye of a New York bankruptcy judge, he has had to placa banks and persuade vendors to resun shipping goods to his 461 stores.

Gentle diplomacy is not the Pistn style. After two weeks on the job, l met with vendors in New York, wher some say, he acted as if they owed hi money. His message: "Get off your ta and get in line to release merchandise He assured them he could pay for t goods by winning court approval for $250 million Chemical Bank loan. Ne Pistner set about lopping off one-thi of the company. He quickly shut 2 stores, laid off 18,000 employees, a brought in a new management tea composed mainly of executives who h worked with him on earlier turnaround "The patient is off the operating tab and in the recovery room," boasts. Others aren't so su Observes Chicago retail consu tant Norman H. McMillan: "' far, all he's done is cut ba and get rid of the bleeders."

'NO SURPRISES.' This doctor h an unusual bedside manner. staff meetings, the animat boss is known for jumping o of his seat and shouting bursting into raucous laught when something amuses hi On weekends, sometim Pistner pulls on dungarees a wanders Ames's aisles incog to, and his schedule runs la into the night. Thomas Drew, who worked with Pistn at Montgomery Ward, says wasn't surprised when t phone rang at 10 p.m. on N Year's Eve several years ag Pistner had a business qu tion. And he expects swi well-informed answers. Montgomery Ward, he had sign on his desk that read: "] Surprises." Says Drew: "If y try to fake him, he'll have y for breakfast."

With more than 20 years of retail perience, Pistner's not easily faked o He grew up in St. Paul, Minn., gradu ed from the University of Minneso and went into retailing "because I did have to be a genius to succeed." Af selling his small retail electronics bu ness to Dayton-Hudson in 1970, worked his way up to become CEO that company's struggling Target count retail chain. He slashed staff a overhead and turned Target into "upscale" discount retailer, becomi president of the parent in 1977.

Four years later, Mobil Corp. lu him away to shore up its ailing Mo gomery Ward division. Pistner chopp

A HECTIC START

APRIL After filing for bankruptcy protection, Ames Department Stores hires Stephen Pistner as CEO

MAY Pistner secures $250 million loan from Chemical Bank. Bankruptcy court approves $9 million compensation package for him

JUNE Pistner announces plan to close 221 stores, cut 18,000 jobs

SEPTEMBER With store closings completed, Pistner raises $210 million in inventory liquidation. Ames reports $583 million first-half loss

OCTOBER Pistner announces plan to eliminate 400 headquarters jobs

DATA BW

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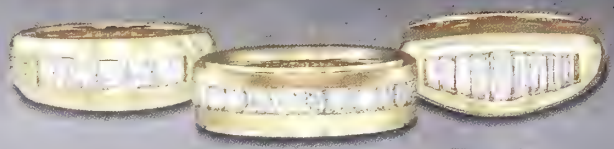

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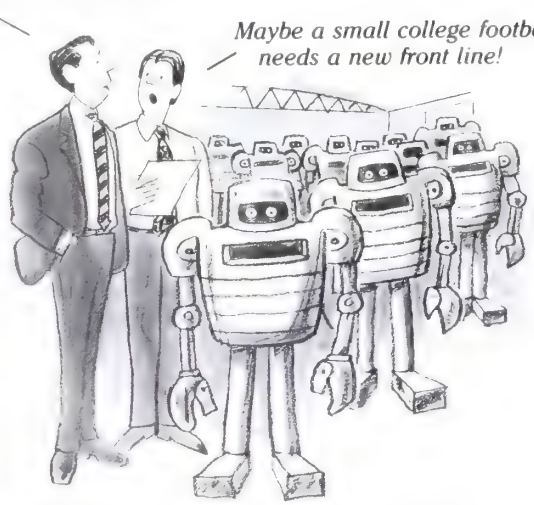

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People

$100 million off operating costs. At th end of his first year, Ward executive gave him a shotgun for Christmas. A the end of his second year, he gave M bil some good news: a $40 million annu profit for Ward, its first in four year He used his success at Ward for leve age when he joined the trouble McCrory Stores chain. Pistner rejected block of stock as part of his salary, i sisting instead on a five-year contra valued at $12.5 million. "My momm drowned the dumb ones," he gloats.

Pistner doesn't exactly squirrel awa his money. Works by Rodin, Picass and Miró line his office walls. In additi to fine art, Pistner collects ancient glas and antiques. For outdoor fun, he hunt sails, flies small planes, and goes whit water canoeing. Last year, newly ma ried for the third time, he planned to bu an 86-foot yacht and sail around th world with his bride. But at the la minute, he broke the sales contract. F cusing on one pursuit for that long, h says, would probably drive hi "screwy." In work or play, his philos phy is the same: "Move fast."

IN THE DESERT. Some say he moves t fast. Although he is credited with dev oping the "store-within-a-store" strateg that's still in place at Montgomery Wa today, retail analysts say he left th company before it was fully back on i feet. Likewise, Pistner exited McCro after only 2½ years. It's still strugglin He won't say why he left, but close ass ciates claim that he and McCrory own Meshulam Riklis clashed over style a strategy. "He's like Moses—a good lea er taking people through the desert a adversity," says Leo J. Shapiro, a Chic go consultant who worked with Pistn at McCrory. "But he doesn't quite ma it to the land of milk and honey."

Ames is still in the desert. With mo of its stores in recession-plagued N England, Pistner can't expect to see cu tomers lining up with fists full of d lars. But through store closings and l uidation sales, he has generated $2 million in cash.

That money and short-term loans ha persuaded most suspicious vendors ship. Pistner also is renegotiati Ames's debt. In July, he began runni the chain's sales circulars again. A most of his marketing and buying pla are already in place for the Christm season.

Still, creditors are eyeing his eve move. "I don't see a robust future f Ames right now," says Arnold H. Dr fuss, CEO of creditor Hamilton Beac Proctor-Silex Inc. But for Pistner, robu isn't the issue. He has to make su Ames has a future, period.

By Lisa Driscoll in Rocky Hill, Co

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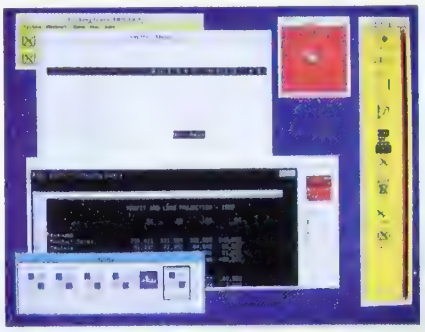

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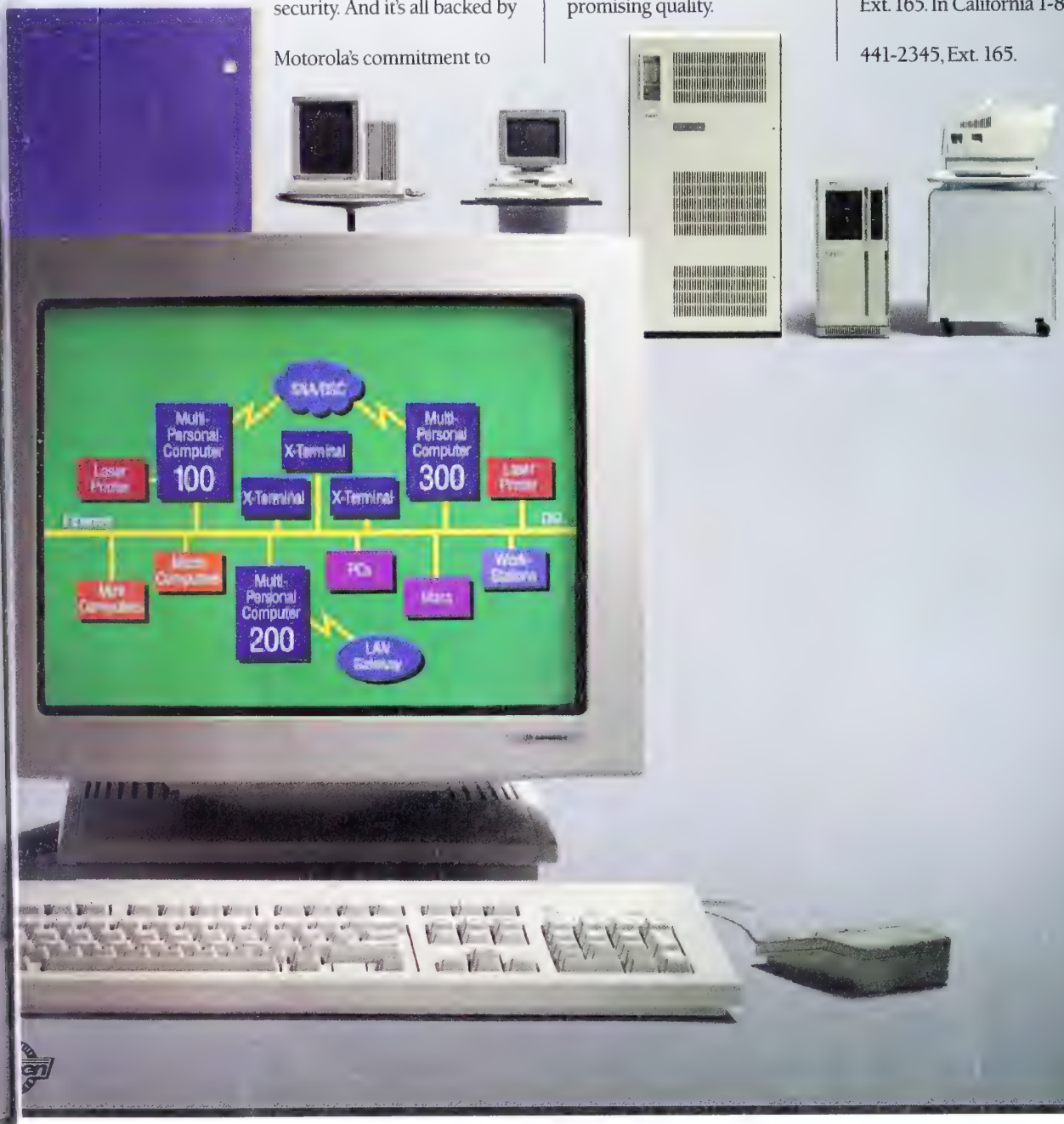

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Autos

THE NEW CARS FROM THE INSIDE OUT

Call 1991 the year of the car interior. Belatedly recognizing that drivers spend more time sitting inside a car than standing outside admiring the exterior, car designers are devoting more attention to details such as seats and dashboards. In some cases, the changes are purely cosmetic. But in the best of cars, the smarter interiors are mated to noticeable improvements in the mechanical elements. The results show everywhere, from the inexpensive Saturn (box) to the $60,000 Acura NSX, a Lamborghini challenger that offers both 270-hp va-voom and a comfortable cockpit.

That's the clearest trend emerging this October, the month in which auto makers introduce the new 1991 cars—or at least, go through the motions of introducing the new 1991 cars. Some of the most eagerly awaited '91s aren't here yet (and won't be for months): The new Acura Legend, Mercedes-Benz S-class, BMW 850i, and the Honda Accord. And some of the new models are not so new: Chevrolet's 1991 Caprice went on sale back in January.

Still, this is the time of year foreign and domestic manufacturers officially unveil their offerings. So it's a good opportunity to sort through the hype and select what's new and worth noting. Prices given are for base versions of each model (excluding taxes and destination charges).

Revamped design is especially evident in minivans, which continue to be big sellers. Check out Chrysler's new versions, the Plymouth Voyager and Dodge Caravan (both $13,215). Chrysler spent $650 million redesigning these family-movers, and you'd hardly notice it from the outside. But inside, the changes are dramatic. Gone are the "stacked boxes" that made up the front console in favor of a more unified dash. To keep the display panel compact and uncluttered, Chrysler added an extra row of warning lights in a sort of eyebrow above the main dials. Little touches like that are found throughout the interiors of the minivans, which also feature optional antilock brakes and all-wheel drive.

MITSUBISHI'S 3000GT VR-4

FORD'S EXPLORER

Superior interior styling also shows in sedans. In the Buick Park Avenue Ultra, the fake-wood paneling flows stylishly from the front dash onto the armrests on the doors. The new transmission, smoother than the old one, is an added strength in this $27,420 traditional American luxury car. There's also, at long last, a mammoth station wagon for nontraditionalists: Oldsmobile's $20,495 Custom Cruiser. It comes with a "Vista moonroof," a pane of glass whose roofline rises slightly behind the front seat, much like the staggered rise in the roo line of a Greyhou bus. Outside, Olds h banned the bane suburbia: fake-woo paneling. It's not ev available as an optio If you must ha wood-like panels your station wagon, ask your Buick deal for a Roadmaster.

Function that e hances form is also e dent in Oldsmobile's new Br vada off-road vehicle. Studi showed that most potent buyers don't go farther o road than a dusty track ba to their summer cabin and a confused about when to sh from two- to four-wheel driv So Olds sensibly left the ha core off-road buyers to Che and GMC Truck and installed full-time four-wheel-drive sy tem on the Bravada, th eliminating the extra shift commonly used move in and out four-wheel drive. Th left the $23,795 B vada less cluttered side, where leath graces both the sea and the sides of t doors. Another ni touch: a digital co pass in the corner the rearview mirror.

BUICK'S PARK AVENUE

Ford's off-road try, the Explorer, troduced at $15,232 for t four-door model, has a pu button setup on the da board for engaging the fo wheel drive. It also feature cleaner instrument displ and a more upscale look th its predecessor, the Bronco But the biggest interior provement comes from a m chanical change: a long wheelbase that gives the E plorer far more comforta rear seats than the Bronco

DODGE'S CARAVAN ES

hich wasn't even offered as four-door model.

Although much of the action relates to redesign, there some important technological news as well. Antilock rakes have long been options n luxury cars, but a new GM ystem brings this major safe- advance to the masses, ith cars such as the Pontiac rand Am SE, Oldsmobile utlass Calais I-series, and uick Skylark Gran Sport. hese three, among the low- t priced models in their re- ective divisions, all boast a dically new, and much less mplex, system that uses mple electronic motors rath- than solenoid valves to odulate pressure to brakes. 's equally safe—but a lot ss expensive.

OWN JEWEL. The mechanics t top billing in the $16,293 odge Stealth and $19,059 itsubishi 3000GT, those iendly rivals for the hot-rod owd. For extra bucks, these tual twins can be loaded r performance: all-wheel ive, four-wheel steering, d a 300-hp V-6 engine with in turbochargers. Not surisingly, these modern mus- cars come with gauge-clut- ed instrument panels for yers who prefer the F-15 hter-jet look to understated gance in the cockpit.

There's also an under-the-od surprise—of a less asant sort—in the Infiniti 0 from Nissan. At $17,500, car represents a move wn-market for Nissan's luxy division—though Infiniti ints to the G20's appointnts, spacious interior, and aler servicing as keeping it the luxury class. But the 0s are powered by the ne 140-hp engine found in new Sentra SE-R pe, the sporty verof Nissan's entry- el line, which goes a mere $10,970. ades of the days en Oldsmobile own- discovered Chevy gines under their ds.

he flip side, of rse, is that the SE-R quite a pocket rock- It's the crown jewel of a redesigned Sentra lineup that is much improved over last year's version, again most notably in its interior design. Another entry-level auto that's gotten a makeover is Toyota's Tercel, which has dropped its econobox hatchback version for a spiffy sedan. Among subcompact station wagons, the most stylish cars are the Ford Escort and Mercury Tracer: Both models have been on sale since last spring, but only now are Ford dealers getting them in decent volume.

DODGE'S STEALTH ES

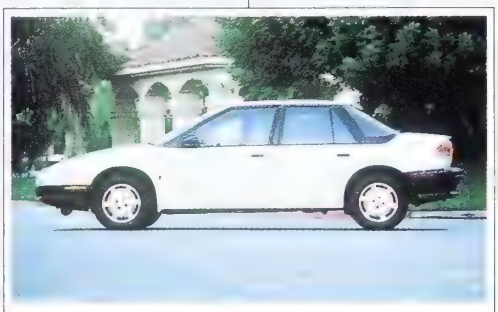
LOW MARKS. If you sneer at the idea of a stylish subcompact, perhaps Aston Martin's Virage is your cup of tea. Handmade—even hand-painted—this veddy Brrritish sedan probably will be priced at around $200,000 when those on the waiting lists start receiving the cars next year. A convertible version will be available, but it's receiving low marks for styling.

And speaking of waiting lists: The best news for 1991 is that the Ferrari F40 finally has passed U.S. regulatory tests and has been cleared for sale here. (If you're not on a waiting list yet, don't bother to get on one.) You haven't heard of the F40? Well, let's just say then that you are probably not in the market for a $400,000 sports car—assuming that is, you could find a dealer who charges only the sticker price. *Jim Treece*

FINALLY, SATURN ENTERS THE RING

The most eagerly awaited car of the year is here. After an eight-year gestation, the new Saturn sedans and coupes go on sale in selected markets on Oct. 25. Do these import-fighters stack up? After a half-day of driving different models around GM's Spring Hill (Tenn.) plant, my answer is—a qualified yes.

Sitting in the front seat, I'm initially pleased. The instrument panel is clean and functional, and controls are laid out intelligently—no blocking of the heating controls by the stick shift, which is typical in, say, an Oldsmobile Cutlass Calais. As I turn on the engine, the motorized shoulder belts nestle around me while a "lap belt" light reminds me that I need to buckle up. Saturn uses motorized belts instead of GM's own awkward passive belts, because the former were, in one product planner's words, "the import way to do it."



GM'S SATURN SPORTS SEDAN

But what's this? The top of the plastic dash doesn't quite meet the plastic strips closer to the sides of the windshield. In between is a strip of fiber. The effect is like seeing a pad sticking out from under a carpet. Closer inspection around the windows proves that Saturn's fit and finish won't send Japanese carmakers back to the drawing boards. And the rear is short on headroom.

SMART LIGHT. Mechanically, the cars are very nice indeed. Although the engine is a bit noisy and vibrates the steering wheel more than it should, I can't fault it for peppiness. It comes with a terrific suspension, steering that's responsive—not mushy, and brakes that perform smartly under just the right amount of foot pressure. Optional antilock brakes will be added later in the year. I tested two fine transmissions: a manual that was pleasant even for a nonaggressive shifter like me, and a smooth, optional $695 automatic. With the manual, a yellow arrow lit up on the console to suggest when to shift, but smartly stayed unlit when I accelerated hard to merge onto a highway.

Can Saturn's sedan take on the imports? Is it as good as a Honda Civic or a Toyota Corolla, which I deliberately rented for the trip down here? Not quite. In ride, handling, and responsiveness, it's at least as fine as the imports for zipping around town. The noisy engine and deficiencies in fit leave it lagging behind the Japanese. Overall, Saturn is within spitting distance of the Civic and Corolla, but not ahead.

Nevertheless, at day's end, I'm impressed. These are good, very competent cars, if not knockouts, and they're priced to win. Saturn makes a four-door Civic's $9,490 price tag look bloated. For $7,995 (not including tax) and a $275 destination charge, you get a four-door car that is complete, not a strippo hatchback. In fact, the styling touches that distinguish the $10,295 top-of-the-line Saturn sedan from the base model are so minor that it would be hard for the untrained eye to tell. Finally, a basically priced car whose base price is for real. *J. T.*

Collectibles

TELEPHONES THAT CALL UP THE PAST

For most of us, having a phone that doesn't work well—or work at all—is enraging. But some people don't really mind, and they're not all misanthropes or telephone repairmen. They're collectors of antique phones.

Nostalgia and a fascination with antiquated inner workings are the attraction for phone buffs. Enough of them are around to support such groups as the Antique Telephone Collectors Assn. (Box 94, Abilene, Kan. 67410) and Telephone Collectors International (19 Cherry Dr. North, Oswego, Ill. 60543).

'OIL CAN.' Some rare antique phones cost thousands, others are just three-digits. Hottest today are colored plastic ones from the 1930s and '40s, says Paul McFadden, an Algonquin (Ill.) collector. Among the most rare: The dark blue Western Electric square-based model and the mint-green Automatic Electric AE34. They might fetch $400.

RARE FINDS: FROM $250 DESK MODELS TO $2,000 CANDLESTICKS

Plain black desk phones from the late 1920s are also coming on strong. Western Electric 202 cradle phones—made of Bakelite, with an oval base and thin neck—are now worth as much as $250, up from $95 in 1988, says Yash Jesrani of New York's Phone Boutique.

Avid collectors often focus on older uprights, including such candlestick models as the "oil can," with its thick rounded base. Says collector Dick Erickson of Huntington Beach, Calif.: "The most sought-after are the Strowger potbelly candlesticks," which have a large dial in the stem not on the base. Dating from the 1890s, these were the first phones that let you dial numbers yourself. They cost around $2,000.

FAMILIAR RING. Many antiques can still work, but you need to replace parts to make them compatible with today's phone lines. Buy an old shell packed with modern parts from companies such as the Chicago Old Telephone Co. in Sanford, N. C., and Phoneco in Galesville, Wis. (Purists, of course, consider such renovation sacrilegious.) And even if their weightier originals don't sound up to snuff, they can still be practical. "Keep it at your bedside, and you've got a weapon," suggests Harvey Stuart, owner of the Fone Booth in—where else?—Manhattan. *Suzanne Woolley*

Smart Money

THIS MAY BE THE TIME TO TRY TAX-EXEMPTS

Since the President's waffling on the issue of "tax revenue increases," savvy investors have been scrambling to shelter their investment income. As of Oct. 10, assets in tax-exempt money market funds hit a record $82.1 billion, up 17% from a year ago. Money has been pouring into tax-exempt funds and bonds as investors "factor in the permanency of a 33% tax bracket," says Ian MacKinnon, head of Vanguard Group's fixed-income department.

On an aftertax basis, both short- and long-term yields have become increasingly attractive to investors in the top tax tiers. How attractive? Well, although 30-year Treasuries recently crested to 9%, the taxable equivalent yield on 30-year munis amounts to over 11% for investors who pay the top 33% rate, and over 10% for those in the 28% bracket.

DICEY. Still, investing in tax-exempts now has its dicey side. The specter—some would say certainty—of a recession, brought on by a slow economy and the Middle East crisis, has raised worries about municipalities defaulting on their debt.

As a result, money managers who specialize in bond portfolios are investing in highest credit ratings: AAA or AA. Besides, you don't have to sacrifice much yield to get top quality. James Lynch, a manager and editor of the *Lynch Municipal Bond Advisory* newsletter, published in Santa Fe, N. M., notes that a AAA general obligation bond from California, due in 2000, was recently yielding 6.7%, while a AA-rated GO bond from Lynchburg, Va., with the same maturity was yielding 6.8%. That equals 9.3% and 9.4%, respectively, in taxable bonds.

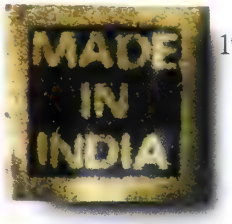
Maturity is another concern, especially given the potential for higher tax rates. "Historically, when tax rates are higher, yields go down," says Suzanne Greenberg, portfolio manager of Cumberland Advisers in Vineland, N. J. So she, like most pros, is advising her investors to reach for the 10-to-20-year range. To lock in the average 7.5% yields, some managers are also seeking call protection—sometimes as much as 10 years' worth. And they're getting it. A Nebraska Higher Education Loan Program zero-coupon bond, due in 2015, yields 7.8% to its call date, in 2004.

> You needn't sacrifice much yield to get top-quality munis

Investors who would rather wait until the yield picture clears might prefer to park cash in tax-exempt money market funds. According to *IBC/Donoghue's Money Fund Report*, the average fund yields 5.57%, which equals 8.31% for those in the 33% tax bracket. Again, stick to quality, advises Ralph Norton, editor of the *Municipal Bond Fund Report* in Woburn, Mass. Make sure a fund's holdings are rated MIG1 or SP1. Two funds he recommends: USAA Tax Exempt Money Market Fund, which currently yields 5.96%, and Fidelity's 5.68% Tax-Exempt Money Market Trust. Both of them have highly liquid portfolios and good quality—just the right ticket to peace of mind in these taxing times. *Bruce Hager*

1945.

1955.



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Siemens **96, 98**

Sonoco Products **26**

Sony **7**

Sun Microsystems **98**

T

Target Stores **106**

Tektronix **94**

Tesco **46**

Thomas Industries **26**

Toyota **7, 78**

U

UBS Securities **33**

Union Carbide **70**

Unisys **98**

United Airlines **32, 94**

USS/Kobe Steel **33**

USX **33**

W

Western Digital **103**

Willamette Industries **26**

X

Xerox **62**

Y

Young & Rubicam **78**

Z

Zayre **106**

BREITLING
1884

INSTRUMENTS
FOR PROFESSIONALS

RESERVE DE MARCHE,
automatic model with
power reserve indicator disc.
Water-resistance: 200 m. Steel bicolor.
Leather strap or metal bracelet.

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GAMES
STOCKHOLM
1990

BREITLING

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STAMFORD, CT 06902
TEL.: 203/327 14 11
FAX: 203/327 25 37

Canon Laser Class.™

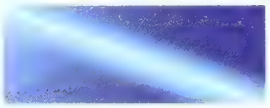
Buy a Canon Laser Class fax and it could be the last fax you'll buy for a long time.

That's because a Laser Class fax has features that won't soon be outmoded. They actually keep pace with expanding needs.

Like the memory capacity of our new FAX-L770. As your fax network expands, the L770 can expand its capacities, too, allowing greater volumes to be received into memory or stored for transmission.

Laser Precision on Plain Paper.

Canon is the market leader in plain paper fax.* And the L770 uses a laser process to print images on plain paper. Because of laser printing, they're faithful to the original.

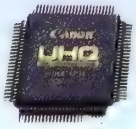


Faxes look better, last longer, and won't curl or fade like thermal paper. And you won't have to copy them before filing.

A Better Image, Sending and Receiving.

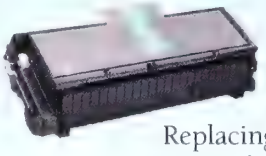
The L770 can improve an incoming image. An exclusive feature called Hyper-Smoothing actually compensates for the image quality of an incoming fax. So the images you receive are clearer, without the fuzzy edges that can make reading text difficult.

And with Canon's UHQ imaging technology, the images you send are better, too. Even combinations of small type and halftones are virtually indistinguishable from their original.



Built-In Reliability.

The L770 is also designed to be more reliable than other plain paper laser facsimiles. Canon's exclusive cartridge system stores everything that can run out or wear out in one neat disposable unit. Replacing them is as easy as popping in a new cartridge.*



The Canon Laser Class FAX-L770. After a few minutes you'll be glad you bought it. After a few years you'll be ecstatic. For information, call 1-800-OK CANON.

The only thing not built into our laser facsimile is obsolescence.

Canon
LASER CLASS
FAX-L770

1993 "Manufacturer of the Year"

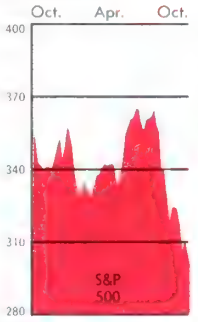
*Cartridge sold separately

nvestment Figures of the Week

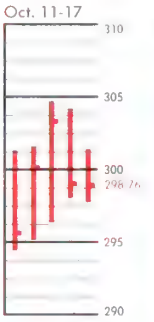
MMENTARY

he Middle East, oil prices, the ing dollar, and budget stale- te weren't enough for investors worry about, third-quarter prof- eports are now giving them ething new to fret over. From . 11 through 17, oil fell nearly per barrel, gold tumbled $30 ounce, and interest rates oped a notch, but the Dow av- ge still closed down for the k. Small cap stocks were led, with a 2.7% loss. The bright spot was the Tokyo k market's modest 1.6% gain.

STOCKS

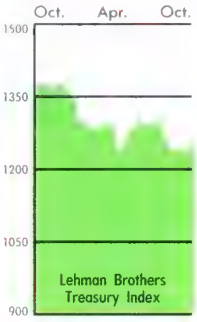


52-week change **–12.6%**

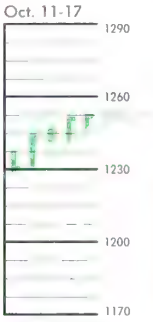


1-week change **–0.5%**

BONDS

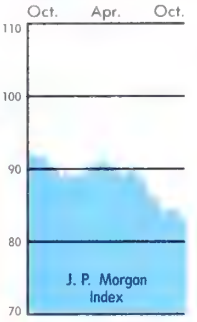


52-week change **–7.3%**

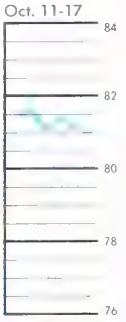


1-week change **+1.6%**

THE DOLLAR



52-week change **–11.5%**



1-week change **–0.6%**

ARKET ANALYSIS

. STOCKS	Latest	% change Week	% change 52-week
V JONES INDUSTRIALS	2387.9	–0.8	–9.7
COMPANIES (Russell 1000)	154.0	–0.6	–14.6
LL COMPANIES (Russell 2000)	119.5	–2.7	–30.1
COMPANIES (Russell 3000)	162.8	–0.7	–15.6

EIGN STOCKS	Latest	% change (local currency) Week	% change (local currency) 52-week
DON (FINANCIAL TIMES 100)	2068.0	–2.5	–4.7
YO (NIKKEI INDEX)	23,859.4	1.6	–32.0
ONTO (TSE COMPOSITE)	3023.4	–2.8	–23.1

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	7.4%	7.5%	7.8%
30-YEAR TREASURY BOND YIELD	8.9%	9.0%	8.1%
S&P 500 DIVIDEND YIELD	4.0%	3.9%	3.3%
S&P 500 PRICE/EARNINGS RATIO	13.1	13.0	13.6

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 26-week moving average	339.3	341.0	Negative
Stocks above 26-week moving average	10.7%	13.1%	Positive
Speculative sentiment: Put/call ratio	0.77	0.68	Positive
Insider sentiment: Vickers sell/buy ratio	0.69	0.69	Positive

DUSTRY GROUPS

BRIDGE INFORMATION SYSTEMS INC.

R-WEEK LEADERS	% change 4-week	% change 52-week	Strongest stock in group	% change 4-week	% change 52-week	Price
ALTH CARE SERVICES	10.2	36.2	BEVERLY ENTERPRISES	21.4	–3.8	6⅜
ECTRIC POWER	6.5	0.0	PACIFIC GAS & ELECTRIC	12.1	20.1	23⅛
GIONAL TELEPHONE COMPANIES	6.2	0.0	SOUTHWESTERN BELL	12.4	0.5	54¼
TERTAINMENT	3.3	–25.4	MCA	57.8	–5.8	58⅜
SPITAL MANAGEMENT	2.7	5.6	COMMUNITY PSYCHIATRIC CENTERS	15.3	–15.6	26⅜

R-WEEK LAGGARDS	% change 4-week	% change 52-week	Weakest stock in group	% change 4-week	% change 52-week	Price
VINGS AND LOANS	–29.9	–48.9	GREAT WESTERN FINANCIAL	–37.1	–58.3	9⅛
SURE TIME	–25.1	–62.8	BALLY MANUFACTURING	–47.2	–82.5	3½
RSONAL LOANS	–24.4	–47.5	HOUSEHOLD INTERNATIONAL	–30.5	–58.0	23⅜
. AND GAS DRILLING	–23.0	17.7	HELMERICH & PAYNE	–26.0	–11.2	24⅞
TELS AND MOTELS	–22.7	–72.5	MARRIOTT	–38.1	–74.7	9⅛

UTUAL FUNDS

MORNINGSTAR INC

IERS

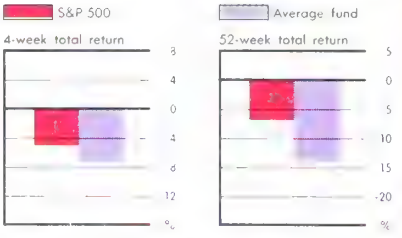
week total return	%
B TELECOMMUNICATIONS INCOME	7.7
TON VANCE TOTAL RETURN	4.9
ANKLIN UTILITIES	3.7

eek total return	%
UITY STRATEGIES	34.9
DELITY SELECT ENERGY SERVICE	27.0
DELITY SELECT BIOTECHNOLOGY	25.4

LAGGARDS

Four-week total return	%
STRATEGIC SILVER	–24.7
BULL & BEAR SPECIAL EQUITIES	–20.8
EQUITY STRATEGIES	–20.5

52-week total return	%
PRUDENT SPECULATOR LEVERAGED	–52.3
STEADMAN OCEANOGRAPHIC TECHNOLOGY	–44.7
WASHINGTON AREA GROWTH	–44.5



LATIVE PORTFOLIOS

DATA RESOURCES INC.

r amounts sent the present of $10,000 ted one year n each portfolio

ntages indicate ay total returns

Money market fund	Gold	Treasury bonds	U. S. stocks	Foreign stocks
$10,694	**$10,044**	**$9,817**	**$8,817**	**$8,755**
+0.14%	–7.12%	+0.49%	–2.03%	+0.67%

a on this page are as of market close Wednesday, Oct. 17, 1990, unless otherwise indicated. groups include S&P 500 companies only; performance and share prices are as of market close Oct. 16. Mutual fund returns are as of Oct. 12. Relative portfolios are valued as of Oct. 16. A more detailed explanation of this page is available on request.

MISSING IN ACTION: OUR LEADERS

Where are our leaders? A specter of political meltdown now haunts America. Special-interest parochialism, wavering indecision, and political cowardice haunt the corridors of government in Washington, our city halls, and our state capitals.

The style of governing now on display has the citizenry in an uproar. Disdain of politicians is so deep in California that voters passed a proposition approving higher taxes only if they were targeted, thus removing any decision-making from their own elected officials. A referendum on limiting years in office for state politicians was passed in Oklahoma, reflecting a distrust of politicians across the country. In November, many incumbents face involuntary retirement. Judging from poll data, it's almost as if the entire nation were rising up to commit a communal act of retribution.

Behind the vendetta against elected officials lies a deep disappointment with the leadership of our country. There is the image of a President who flip-flops over tax policy and tells the country to "read my hips." There is the specter of a Congress stumbling into an enormous S&L crisis, buckling under to every special interest in a desperate bid to get reelected, then commiting hara-kiri on a critical budget-reduction deal.

Things look no better in the executive suite: Our corporate elite continues to cede economic ground—and millions of jobs—to foreign competitors while rewarding itself with fat paychecks and stock options. Wall Street's incessant demands for higher profits each and every quarter inhibit long-term planning, capital investment, and spending for research and development.

POINTING THE WAY

But we elected these people, either by ballot or shareholder proxy. Are we getting the leadership we deserve? Are we "so simple of mind and so much dominated by . . . immediate needs, that a deceitful man will always find plenty who are ready to be deceived," as Machiavelli believed?

Maybe so. But playing to special interests, putting politics above national interest, or focusing on quarterly profits to the exclusion of all else certainly is not leadership. The characteristics of the leader are applicable to government, business, and the military. Leadership is not some mysterious mixture of "personal chemistry" or charisma. After a decade of research on corporations, Harvard business school's John P. Kotter, a professor of organizational behavior, came to the same conclusions as Lieutenant General David R. Palmer, superintendent of West Point, on what makes a leader.

Above all, they found that leaders point the way in times of change and crisis. "Leaders establish the vision for the future and set the strategy for getting there," says Kotter. Leadership is not management. Leaders deal with challenge and cause change. Managers execute orders and cope with organizational complexity. They translate their leaders' direction and overall strategy into specific tactics and actio

George Bush pointed the way for the world community quickly responding to Iraq's invasion of Kuwait. By buildi an international political coalition of Arab and Europe countries while dispatching U. S. troops to the desert, t President is acting like a leader. But half a President is President, and so far, President Bush has shown far mo interest in international relations than he has in domes matters.

PERSONAL SACRIFICE

Leaders are also cheerleaders. They motivate their follo ers to move in the direction they set. They do this promising fairness—in reward and sacrifice. Equity strike deep chord with Americans. "The leader is the servant of t people he or she commands," says Palmer. "If you are r fair and not willing to sacrifice personally, you will be se as self-serving by those who follow you."

Demonstrating fairness through personal sacrifice is important element of military leadership. In Saudi Arab troop commanders are putting themselves in harm's way. Washington's budget wrangling, by contrast, the Preside and Congress are trying to dodge risks that are mer political. And in Corporate America, many executives skirting as much risk as possible, operating their compan for short-term financial benefit almost regardless of long term consequences.

Leaders should commit diverse interests to the service a larger organization and to its ideals. By offering a visi leaders foster a spirit of generosity and compromise, a w ingness to pull together for the common good. Recogn any of this in today's Washington?

Do we deserve better? Maybe not in the '70s, when culture of narcissism led to a Me-Now generation. Nor in t '80s, when the promise of a free lunch—lower taxes a higher spending for defense and middle-class entitleme financed by foreigners—led to a Now-Now generation.

The '90s, one hopes, will be different. This promises to the sobriety decade, following the binge years. Many saving more and borrowing less. Many are returning teaching and joining the Peace Corps again. People app ready to begin the arduous task of making sacrifices fo larger good.

What's missing is leadership. People in authority seem be embarrassed by such ideas as sacrifice, fairness, service. They treat them as hollow concepts, echoing a n talgia for a bygone era. Self-interest, interest groups, a the next quarter motivate them.

Leadership must point the way and show how to there. There is plenty of evidence that Americans can't what direction the country is taking. The trouble is, no has stepped forward to provide the vision. In short, the fa isn't in the followers. The blame rests with our leaders, a that's why Americans are so angry at them.